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No. 05-

IN THE

Supreme Court of the United States

MICROSOFT CORPORATION,

Petitioner,

v.

EOLAS TECHNOLOGIES INCORPORATED AND THE REGENTS OF THE UNIVERSITY OF CALIFORNIA,

Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether 35 U.S.C. § 271(f)—which imposes infringement liability on one who "supplies" "components" of a patented invention from the United States for "combination" abroad—is satisfied if no physical parts are supplied from the U.S. and all that is supplied is software code that foreign computer manufacturers use to program computers that are made and sold entirely outside the U.S.?

PARTIES TO THE PROCEEDING

There are no parties to the proceeding other than those listed in the caption.

Petitioner Microsoft Corporation has no parent company, and no publicly held company owns 10 percent or more of the petitioner's corporate stock.

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PETITION FOR A WRIT OF CERTIORARI

Petitioner Microsoft Corporation respectfully requests that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Federal Circuit was entered on March 2, 2005, and is included in the Appendix ("App.") at 1a-26a. It has been officially reported and can be found at *Eolas Technologies, Inc.* v. *Microsoft Corp.*, 399 F.3d 1325 (Fed. Cir. 2005). The opinion of the district court ruling on the issue presented for review in this petition was entered on July 31, 2003, and is included in the Appendix at 27a-30a. That opinion has also been reported and can be found at *Eolas Technologies, Inc.* v. *Microsoft Corp.*, 274 F. Supp. 2d 972 (N.D. Ill. 2003).

JURISDICTION

The district court had jurisdiction of this patent infringement action under 28 U.S.C. §§ 1331 & 1338. The court of appeals entered its opinion and judgment on March 2, 2005. The court of appeals entered an order on May 3, 2005, denying a timely petition for rehearing and rehearing *en banc*. App. 31a-32a. On July 21, 2005, the Chief Justice extended the time for filing this petition up to and including August 31, 2005. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISION INVOLVED

The statute at issue in this case is 35 U.S.C. § 271(f), which provides:

> (1) Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.
>
> (2) Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

STATEMENT OF THE CASE

A. Nature Of The Case.

Respondents sued Microsoft, alleging that computers programmed with Microsoft's Windows® with Internet Explorer ("IE") software infringe claims 1 and 6 of U.S. Patent No. 5,838,906 ("the '906 patent"). The '906 patent generally claims a computer program product (*e.g.*, a Web browser) and method of using a computer automatically to launch another application to enable users to interact with animations and other "objects" embedded in Web pages. Consistent with prior decisions of this Court and the Federal Circuit concerning patentable subject matter, see, *e.g.*, *Diamond* v. *Diehr*, 450 U.S. 175 (1981); *In re Alappat*, 33 F.3d 1526 (Fed. Cir. 1994) (en banc), the "computer program product" claimed in the '906 patent is not software code or the instructions or underlying algorithms it represents, but rather "a computer usable medium"—such as, for example, a computer hard drive—with operable computer-readable code installed on it. App. 6a (quoting '906 patent, Claim 6).

After a trial on infringement, a jury returned a verdict in favor of respondents. Respondents asserted that if Windows® with IE infringes, then they are entitled to royalty damages on the worldwide sales of Windows® with IE, not just sales in the U.S. The trial court had earlier ruled in their favor on that issue, and so the jury was directed to calculate its royalty award based on worldwide sales of Windows® with IE, including units produced and sold outside the United States. The resulting award exceeded $520,000,000.

This petition seeks review of the Federal Circuit's ruling that 35 U.S.C. § 271(f) entitles respondents to royalties based on foreign manufacture and sale of an infringing software-related product.[1] Specifically, the Federal Circuit ruled that

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[1] The Federal Circuit vacated the judgment in favor of respondents based on the trial court's erroneous rulings that prevented Microsoft

all foreign-made and sold computers on which Windows® software has been installed by foreign Original Equipment Manufacturers ("OEMs") can infringe a United States patent because the software was designed in the United States and a single disk on which the software code was recorded was transmitted from the United States and replicated abroad by the foreign OEMs. The Federal Circuit reached this result despite the fact that not a single physical part of any of the foreign-made computers was supplied from the United States, and in the face of its own prior decisions holding that section 271(f) refers to the supply of physical components, not instructions or information. This ruling accounts for more than 64% of the $520,000,000 that the jury awarded. If allowed to stand, the ruling would dramatically expand the extraterritorial scope of U.S. patents contrary to this Court's rulings and longstanding U.S. patent policy.

B. Software Code Is Design Information.

Software code, standing alone, is a set of instructions for use by a digital computer, instructions that embody an algorithm or set of algorithms. When used to program a computer, software code "creates a new machine" by physically transforming a "general purpose computer" into a "special purpose computer." *In re Alappat*, 33 F.3d at 1545; *see In re Noll*, 545 F.2d 141, 148 (C.C.P.A. 1976) (a programmed computer "comprises physical structure, including storage devices and electrical components uniquely configured to perform specified functions through the physical properties of electrical circuits to achieve controlled results."). That is, a computer on which software code is installed and running has its internal circuitry physically arranged in a particular way that produces particular results.

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from presenting evidence and argument in support of its defense that the patent is invalid in light of certain prior art. The Federal Circuit also vacated the trial court's ruling in favor of respondents on Microsoft's inequitable conduct defense.

Any particular expression of software code is, thus, a particular form of design instructions for computers—instructions that dictate how the millions of switches in a computer's central processing unit will be configured, *i.e.*, which will be open and which closed. A designer of computer software proceeds like any other designer. He or she imagines what the computer should be able to do (*e.g.*, perform as a simple calculator) just as, for example, a tire designer imagines what a particular tire should do (*e.g.*, provide improved traction in wet conditions). Each idea will find expression in a physical product. The tire designer's idea will become rubber formed in a particular way to direct the flow of water so that traction is improved. The software designer's idea will become a rearrangement of the switches of a microprocessor to direct the flow of current so that calculations are performed and their results displayed.

Each designer produces a set of instructions for making the desired product. The tire designer produces drawings of a tread design, indicating the thickness of the rubber, the shape and depth of the grooves, *etc.* These drawings instruct a manufacturer who will turn the written design into a mold that a machine can use to form the tires. The software designer cannot draw a picture of how the millions of switches in a modern microprocessor ought to be arranged to perform as desired. Instead, the software designer expresses processor design instructions in a standard computer format called "source code." Source code is then passed through a "compiler," which produces the equivalent of a tire mold: computer-readable "object code" in which the processor design instructions are expressed in binary form, the "1's" and "0's" used by digital computers. Then, just as a tire-making machine would use the tire mold to shape rubber into tires, a general purpose computer will use the object code to rearrange its processor's switches to produce a special purpose (calculating) computer.

In sum, the software code is like any other set of design instructions, which can be seen by considering how a single set of instructions can be used to make countless units of the product. A tire designer need produce only one set of design instructions that can be used to make a single mold which then produces as many tires as desired. Likewise, a software designer need produce only one version of source code which can be used to make a single computer-readable version of the code, and countless additional (new) copies of that object code can be made and installed on computers, transforming them into as many "special purpose"—programmed—computers as desired.

Cosmetically, the tire-making process is different from the special purpose computer-making process: the process of following the design instructions of computer software is automated and largely invisible to humans. But in substance, the two processes are the same.

C. Installing Windows® On Computer Hard Drives.

Microsoft develops its Windows® software and records the object code form of that software on a "golden master" disk, on which the ones and zeros of the object code are stored. Microsoft does not itself install Windows® onto any computers. Instead, Microsoft licenses its software to OEMs and sends the golden master to them. The OEMs then use the golden master as part of a process which creates new copies of the Windows® code installed on the hard drives of their computers. Thus, as the district court recognized in this case, the Windows® code installed on the hard drive of, for example, a French-made computer is actually made in France, replicating the information provided on the golden master sent from the United States. App. 28a. These Windows®-programmed computers are alleged to infringe the '906 patent.

When an OEM "installs" the Windows® code onto the hard drives of its computers, it takes nothing physical off the

golden master. (Likewise, no physical part of a tire mold becomes part of a tire.) The golden master remains physically unchanged. Like a tire mold, it is removed from the OEM's equipment in exactly the same condition in which it was inserted. This is because, as described above, when the OEM's computer "installs" Windows®, it makes on its hard drive a new copy of the instructions that are recorded in object-code form on the golden master. The computer, in turn, will follow those instructions by rearranging its processor's circuitry to transform itself from a "general purpose" computer into a "special purpose" (Windows®-operated) computer.

D. The Decision Below.

Respondents claimed royalty damages arising from foreign sales of foreign-made computers programmed with Windows® under 35 U.S.C. § 271(f). Section 271(f) provides that whoever "supplies" "components of a patented invention" from the United States in "such manner as to actively induce the combination of such components outside of the United States" in a way that would infringe a patent if so combined inside the United States is liable for patent infringement. 35 U.S.C. § 271(f)(1); see also *id.* § 271(f)(2). Microsoft argued that it does not supply any components of the foreign-made computers: what it "supplies"—the golden master—is not "combined" with anything else to produce a foreign-made computer and does not become a "component" of any such computer. The Federal Circuit disagreed.

The Federal Circuit concluded that because a computer program product is a patented invention, "'computer readable program code'" must be a component of "that patented invention." App. 22a. That is, the court held that the Windows® code is a "component" of a patented invention, where the patented invention is a computer program product consisting of a computer programmed with software that instructs the computer to configure its circuitry in a way that

will enable it to perform the operations that a Windows®-programmed computer can perform.

Even that much, though, is not enough to establish liability under § 271(f). The court still had to establish how Microsoft "supplies" anything that is "combined" outside the United States in such a way that it would infringe were the combination to take place in the United States. While the court did not expressly use the language of "combination," it stated that "duplicates of the software code on the golden master disk are incorporated as an operating element of the ultimate device." App. 2a. That is, in the Federal Circuit's view, the process of duplicating Windows® code onto computer hard drives involves a "combination" of the intangible software code and the general purpose computer within the meaning of § 271(f).

The Federal Circuit has, since the decision in this case, further explained why it believes that Microsoft's conduct with respect to providing the Windows® operating system software code exposes it to liability for infringement, even for computers made and sold entirely overseas, without a single U.S.-supplied part. In *AT&T Corp.* v. *Microsoft Corp.*, 414 F.3d 1366 (Fed. Cir. 2005) (pet. for rehearing and rehearing *en banc* pending, No. 04-1285),[2] the Federal Circuit reasoned

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[2] *AT&T* v. *Microsoft* involves the identical issue presented here—how to interpret § 271(f) in a case involving the copying of Windows® software code onto computer hard drives manufactured and sold entirely abroad. In *AT&T*, the Federal Circuit suggested that its decision in this case was limited to whether software can be a "component" of a patented invention within the meaning of § 271(f). *AT&T Corp.* v. *Microsoft Corp.*, 414 F.3d at 1369. But the operative terms in § 271(f)—"supplies," "component," and "combination"—are inextricably related. It is undisputed that Microsoft "supplies" the golden master disk from the United States. And so Microsoft, in this case, focused on whether the golden master, or even the algorithm or instructions for rearranging the computer's circuitry recorded on the golden master, is a "component" of the foreign-made computer, or is "combined" with other parts when the foreign computer is

that the foreign "copying" of software is "subsumed in the act of 'supplying'" software from the United States, "such that sending a single copy abroad with the intent that it be replicated invokes § 271(f) liability for those foreign-made copies." *Id.* at 1370. Put simply, whenever any single unit of software is supplied to OEMs abroad, "[a]ll ... resulting copies have essentially been supplied from the United States." *Id.*

Critically, in neither *AT&T* nor this case did the Federal Circuit dispute that software code is a "detailed set of instructions." App. 22a. To the contrary, the court acknowledged that the information recorded on the golden master disk is used physically to transform the computer. *Id.* at 23a (noting that "the computer transforms the code on the golden disk into a machine component in operation"). But this was, in its view, no obstacle to finding infringement under § 271(f). In the Federal Circuit's view, the importance of the information—the code—on the golden master disk to the successful operation of the ultimate device—the "invention would not work at all" without the software code—meant that § 271(f) applies. *Id.* at 22a. The Federal Circuit accordingly held that foreign-made duplicates of the U.S.-designed code created U.S. patent liability.

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manufactured. In *AT&T*, the Federal Circuit focused on whether what is ultimately made a part of the foreign-made computer is "supplied" from the United States. *Id.* at 1369-71. These are but different ways of saying the same thing. The ultimate question is unchanged no matter which statutory term is the starting point: does the foreign-made and sold product contain a "component" that was "supplied" from the United States and "combined" with other parts to make the final product. In both this case and *AT&T*, the Federal Circuit determined that a foreign-made and sold computer that has been programmed with the Windows® software code includes a "component" that was "supplied" from the United States and "combined" with other components to produce the final product within the meaning of § 271(f).

REASONS FOR GRANTING THE PETITION

The issue presented in this petition warrants this Court's review for two related reasons. First, the decision below conflicts with the numerous decisions of this Court stating that United States patent law should not be given broad extraterritorial effect. Section 271(f) represents a narrow exception to that longstanding federal policy, an exception designed to close what Congress understood to be a loophole in the patent laws created by this Court's decision in *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518 (1972). The *Deepsouth* loophole that concerned Congress existed only where the actual, physical components of the patented device were made in the United States and sent to be assembled into the patented invention abroad. By finding infringement liability where no physical parts of the foreign-assembled invention are made in the United States, the Federal Circuit ignores both the language and the purpose of the statute, as well as its own prior decisions construing the statute. The Federal Circuit's interpretation of § 271(f) will trigger a revolution in the extraterritorial application of U.S. patents that this Court has repeatedly stated should occur only if Congress so directs. Such a sea change in the scope of U.S. patent law is not properly the subject of creative judicial interpretation of the patent statute. To the contrary, this Court has made clear that statutes should be interpreted in ways that best harmonize them with the body of existing law into which they must be fit. The Federal Circuit's interpretation of § 271(f) disregards that important principle of statutory construction.

Second, the economic impact of the decision below on domestic knowledge-based industries marks this as a case of exceptional importance warranting this Court's review. Sup. Ct. R. 10(c). The decision below makes it an act of patent infringement to send from the United States design instructions concerning the manufacture of a patented invention. The result is that U.S. companies, like Microsoft,

that design their products domestically, but manufacture and sell all or many units of their products abroad, will find themselves at risk of patent infringement liability not only for domestic sales, but also for sales the world over. This creates a powerful incentive for such companies to move their research and development operations overseas to avoid the potentially crippling liability created by the Federal Circuit's interpretation of § 271(f) by ensuring that the design information they produce is never "supplied" from the United States. Further, given the intrusion on the sovereign prerogatives of other nations that the Federal Circuit's interpretation entails, there is the risk that the decision, if allowed to stand, will spark other nations similarly to expand the scope of their own patent laws, thus intruding on otherwise lawful and productive economic activity in the U.S.

The Federal Circuit's exclusive jurisdiction over the interpretation and application of the patent laws gives its ruling immediate national scope, and only this Court can correct the distorting effect of the decision below. Nothing in the text, legislative history, or purpose of § 271(f) suggests that Congress intended to disrupt the process of cross-border sharing of design information for novel products. Yet that economically unsettling result is precisely what the Federal Circuit's interpretation of § 271(f) creates. This Court should grant the petition to restore the extraterritorial scope of U.S. patent law to its proper, limited bounds.

1. Section 271(f) is a narrow exception to the general rule that U.S. patent law has no extraterritorial effect. This Court has long recognized that U.S. patent law generally does not have extraterritorial effect. "Our patent system makes no claim to extraterritorial effect; 'these acts of Congress do not, and were not intended to, operate beyond the limits of the United States,' and we correspondingly reject the claims of others to such control over our markets." *Deepsouth*, 406 U.S. at 531 (quoting *Brown* v. *Duchesne*, 60 U.S. (19 How.) 183, 195 (1856)). "The right conferred by a patent under our

law is confined to the United States and its territories." *Dowagiac Mfg. Co.* v. *Minnesota Moline Plow Co.*, 235 U.S. 641, 650 (1915). The longstanding presumption against extraterritorial effect of U.S. patents serves to "avoid unreasonable interference with the sovereign authority of other nations." *F. Hoffman-La Roche Ltd.* v. *Empagran S.A.*, 124 S. Ct. 2359, 2366 (2004).

The Federal Circuit's interpretation of § 271(f) in this case gives U.S. patents a capacity to sanction foreign conduct that has no connection to or consequences in the United States. This intrusion on the sovereign authority of other nations to define the scope of patent protection within their territories is unprecedented. It also runs afoul of well-established principles of international law governing patents. For example, under the *Paris Convention for the Protection of Industrial Property* (Sept. 28, 1979) (amended), patents issued by individual countries are to be "independent" (in scope and effect) of patents issued by other Paris Convention Members.[3] Under the Federal Circuit's decision, U.S. law would give rights under a U.S. patent with respect to conduct in a foreign country that a patent issued by that foreign country may not give, even though the Paris Convention—to which the U.S. is a party—dictates otherwise. Indeed, the Federal Circuit's interpretation of § 271(f) would apply U.S. patent law to prohibit or restrict or penalize the manufacture and sale of goods in a foreign country even if the U.S. patentholder has not secured or could not secure patent protection in that country.

Section 271(f) is a narrow exception to the important federal policy against extraterritorial application of U.S.

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[3] Article 4*bis*(1) of the *Paris Convention* provides that "[p]atents applied for in the various countries of the Union by nationals of countries of the Union shall be independent of patents obtained for the same invention in other countries, whether members of the Union or not." World Intellectual Prop. Org. [WIPO], *Paris Convention for the Protection of Industrial Property* art. 4*bis*(1) (Sept. 28, 1979).

patent law which directly addresses the particular problem identified in *Deepsouth*. *Deepsouth* involved a patent for shrimp deveining machinery. The Laitram Corporation held that patent, precluding domestic production of the patented machinery by Deepsouth. In response, Deepsouth shipped to foreign buyers a kit containing all of the various parts of the shrimp deveining machine for assembly and sale outside the United States. The company contended "that by this means both the 'making' and the 'use' of the machines occur abroad," thus avoiding infringement liability. *See Deepsouth Packing*, 406 U.S. at 524. Even though Deepsouth was "entirely straightforward in indicating that its course of conduct [was] motivated by a desire to avoid patent infringement," *id.* at 523 n.5, this Court overturned the lower courts' findings of infringement and interpreted the statutes narrowly to prevent extension of the U.S. patent right beyond the U.S. borders. The legislative history of § 271(f) makes clear that Congress perceived this Court's decision in *Deepsouth* as creating a loophole in the patent laws that should be closed. 130 Cong. Rec. H10525 (daily ed. Oct. 1, 1984), 98th Cong., 2d Sess., *reprinted in* 1984 U.S.C.C.A.N. 5827, 5828. Congress wanted to protect against a U.S. company avoiding U.S. patent laws by manufacturing the physical parts of a patented device in the United States and shipping those parts abroad for combination into the patented invention.

The language of § 271(f) makes clear that Congress achieved precisely what it intended, and no more. Congress made it an act of infringement to supply "components of a patented invention" (the physical parts of the deveining machine) which are "uncombined" (as in *Deepsouth*) "in such manner as to actively induce the combination of such components outside of the United States" (as in *Deepsouth*) "in a manner that would infringe the patent if such combination occurred within the United States" (as in *Deepsouth*). It is difficult to imagine statutory language more

closely tied to the express statutory purpose of dealing with the precise situation this Court confronted in *Deepsouth*.

To be sure, the result of the statute is to extend U.S. patent laws beyond U.S. borders, but only in a narrowly tailored way. Section 271(f) reaches certain conduct overseas—combination—but only combination of components supplied from the United States. The limitation of § 271(f) to "components" as understood in *Deepsouth*—the physical parts of the machine—is an important limitation on the potential liability of a U.S.-based infringer. A U.S.-based infringer is liable for only as many units of the infringing product as result from proscribed conduct in the United States—the number of sets of "components" produced in the U.S. and subsequently exported for assembly abroad. Any additional units made outside the U.S. from foreign-made parts are not within the reach of § 271(f).

2. The Federal Circuit's interpretation of § 271(f) massively expands its reach in a way that disregards the rule against giving U.S. patents extraterritorial effect and does violence to this Court's standard principles of statutory interpretation. The Federal Circuit in this case and in *AT&T* flatly refused to limit § 271(f) to the export of physical parts of a foreign-assembled product or to combining outside the United States physical parts supplied from the United States. It is undisputed that the golden master disk—the only physical thing Microsoft supplies from the United States—is never made a part of any foreign-made computer. It is also undisputed that the software code recorded on the golden master—divorced from its particular physical embodiment on the disk, a computer hard drive, or other physical structure—is information, a set of instructions implementing an underlying algorithm. Nevertheless, the Federal Circuit based liability in this case on the supply of a single copy of that information, the software code recorded on the disk which provides instructions for how a computer's processor's circuitry should be physically arranged. App. 22a-23a.

This conclusion was surprising, for not only do the language and history of § 271(f) dictate that it applies only to the supply of physical components, but the Federal Circuit itself had reached that very conclusion in prior encounters with the statute. Thus, in *Pellegrini* v. *Analog Devices, Inc.*, 375 F.3d 1113 (Fed. Cir.), *cert. denied*, 125 S. Ct. 642 (2004), the Federal Circuit held that a defendant that designed allegedly infringing integrated circuit chips in the U.S. and sent the design instructions to foreign countries where the chips were manufactured and sold had not infringed a U.S. patent under § 271(f). *Id.* at 1115. As the court construed the statute in *Pellegrini*, there can be "no liability under § 271(f)(1) unless components are shipped from the United States for assembly," *id.* at 1117, for the statute "refers to *physical supply* of components, not simply to the supply of instructions," *id.* at 1118 (emphasis added).[4]

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[4] This principle—that the term "component" in § 271(f) requires the supply of a physical part of the infringing product and not merely intangible information—is reflected in other Federal Circuit decisions as well. Before the decision in this case, the Federal Circuit had held that § 271(f) is not "implicated" in cases involving infringement of method (as opposed to product) patents. *Standard Havens Prods., Inc.* v. *Gencor Indus., Inc.*, 953 F.2d 1360, 1374 (Fed Cir. 1991). Since the decision in this case (and *AT&T*), the Federal Circuit has, again, observed that "it is difficult to conceive of how one might supply or cause to be supplied all or a substantial portion of the steps of a patented method in the sense contemplated by the phrase 'components of a patented invention' in section 271(f)." *NTP, Inc.* v. *Research in Motion, Ltd.*, No. 03-1615, 2005 U.S. App. LEXIS 15920, at *107 (Fed. Cir. Aug. 2, 2005). The difficulty stems from the contextual incongruence of treating an intangible thing (whether the steps of a process or instructions in the form of software code) as a "component" within the meaning of § 271(f), given the language of the statute and Congress's focus on the facts of *Deepsouth* when it enacted § 271(f). *NTP*, 2005 U.S. App. LEXIS 15920, at *105-*07. Similarly, in *Bayer AG* v. *Housey Pharmaceuticals, Inc.*, 340 F.3d 1367, 1372-73 (Fed. Cir. 2003), the word "component" in the phrase "trivial and nonessential component" in § 271(g)(2), the companion provision to § 271(f), was read to refer only to "a physical product."

This natural and sensible reading of the statute was simply abandoned in this case. As now construed, § 271(f) covers products sold solely outside the United States and made entirely with foreign-supplied parts, if those products are made or modified according to design information supplied from the United States. What was a narrow exception to the rule against extraterritorial application of the patent laws has been transformed into a roving commission to enforce U.S. patents worldwide.

The enforcement of U.S. patents on software inventions against all computer products, wherever manufactured and sold, that include U.S.-designed software is itself a sufficiently broad and profoundly important exception to the territorial limit of U.S. patents to warrant this Court's review. Making matters worse, the logic of the decision below cannot be confined exclusively to software patents. Indeed, the Federal Circuit in this case made no attempt to limit the scope of its ruling. The panel majority in the subsequent *AT&T* case, apparently recognizing the sea change in the extraterritorial reach of U.S. patents the court was creating, tried to limit the new rule to software patents. 414 F.3d at 1369 (stating that the court was examining § 271(f) "in the context of software distribution."). That effort, however, failed.

As the Federal Circuit noted in this case, patent law "accords the same treatment to all forms of invention." App. 23a.[5] Further, there is no principled ground on which to rest a

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[5] The United States also is bound by international agreements not to discriminate in the enjoyment of patent rights based on the technological field of the patented invention. *See* Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, art. 27.1, Legal Instruments—Results of the Uruguay Round, 33 I.L.M. 1197, 1208 (1994) ("TRIPS Agreement") ("patents shall be available and patent rights enjoyable without discrimination as to the place of

software-only rule. The *AT&T* panel claimed that software was different because "[i]t is inherent in the nature of software that one can supply only a single disk that may be replicated—saving material, shipping, and storage costs—instead of supplying a separate disk for each copy of software to be sold abroad." 414 F.3d at 1370. But that rationale applies equally to *any* set of instructions (or, returning to the tire example, *any* product mold) for making additional units of *any* invention. In this case, the Federal Circuit emphasized that "the software code on the golden master disk is ... probably the key part of this patented invention." App. 22a-23a. Again, however true that may be, it is equally true for the design instructions or mold used to create *any* other product. Every patented invention, at bottom, is the reduction to practice of a conception that has been sufficiently described "to enable a person skilled in the art to practice the invention." *Pfaff* v. *Wells Elecs., Inc.*, 525 U.S. 55, 67-68 (1998). When the Federal Circuit says that software code is the "key" to this invention, it is saying nothing more than that the description of how to practice an invention—the design instructions for making it—is the "key" to that invention. The Federal Circuit's decision, first announced in this case and then repeated in *AT&T*, to hold that § 271(f) applies to foreign-made units of computers programmed with Windows® will, unless corrected, expand the reach of U.S. patents of *all* sorts well beyond the nation's borders.

This massive expansion of the extraterritorial reach of U.S. patents is contrary to longstanding federal policy. *Deepsouth*, 406 U.S. at 531; *Dowagiac Mfg. Co.*, 235 U.S. at 650; *Brown* v. *Duchesne*, 60 U.S. (19 How.) 183, 195 (1856). Not only does § 271(f) cover the circumstances at issue in *Deepsouth*, as Congress intended, but, under the Federal Circuit's reasoning, it covers much more. Imagine that the *Deepsouth* defendant, instead of shipping the various tangible parts of a

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invention, *the field of technology* and whether products are imported or locally produced.") (emphasis added).

deveining machine, simply mailed a detailed set of manufacturing instructions for the machine—describing all of the necessary parts, their dimensions, and the raw materials from which the parts are made, and explaining precisely how to put all of them together. Notwithstanding its prior decision in *Pellegrini*, the Federal Circuit now apparently views the ease with which such instructions can be delivered overseas, and the countless units that can be made using those instructions, as a threat to the efficacy of § 271(f). *AT&T*, 414 F.3d at 1371 ("Section 271(f), if it is to remain effective, must ... be interpreted in a manner that is appropriate to the nature of the technology at issue."). So the Federal Circuit has read § 271(f) to cover that unforeseen case as fully as it covers what actually happened in *Deepsouth*, even though it is difficult to imagine using the word "component" to describe the detailed set of instructions that the hypothetical envisions, and it is difficult to imagine describing the construction of the machine overseas as a "combination" of the foreign-supplied parts and the U.S.-supplied instructions.

In our modern, information-based economy, the sharing of information, including design information, is essential, common, and often instantaneous. Such information has long been shared—with corresponding benefits to our economy—without any fear that patent infringement liability might accompany such conduct. Under the ruling below, such information-sharing now carries the unavoidable risk that what has been communicated from the United States will inadvertently run afoul of some previously unknown patent and thereby impose a massive damages award on the information supplier, even though all the parts of the allegedly infringing products were of foreign origin, and all the assembled units were sold overseas. Cf. *Bayer AG* v. *Housey Pharms., Inc.*, 340 F.3d 1367, 1371-77 (Fed. Cir. 2003) (holding that 35 U.S.C. § 271(g), which makes it an act of infringement to import into the U.S. a product "made" with a patented process outside the U.S., does not cover the

importation of information produced through overseas use of the patented process). Indeed, it may now be an act of infringement to transmit a patent itself (which, after all, instructs the reader how to practice the invention) in such a manner that it actively induces entirely foreign manufacture of the invention. Congress did not intend such absurd results. See *Paul* v. *Davis*, 424 U.S. 693, 698-99 (1976). Yet they follow from the Federal Circuit's ruling in this case. If the commonplace act of supplying design information regarding patented products to overseas manufacturers is patent infringement, the rule against extraterritorial application of the patent laws is reduced to empty words.

Expansion of the scope of patent protection is a matter for Congressional action, not innovative judicial interpretation. *Deepsouth*, 406 U.S. at 531 (refusing to expand the scope of patent protection "unless the argument for expansion of privilege is based on more than mere inference from ambiguous statutory language."); *United States* v. *Dubilier Condenser Corp.*, 289 U.S. 178, 198-99 (1933) (stating that policy considerations that attend to defining the scope of patent protection are legislative in nature, not judicial). Courts do not expansively read provisions of the patent laws to cover new circumstances that were unforeseen by the enacting Congress. *Parker* v. *Flook*, 437 U.S. 584, 596 (1978) (stating "we must proceed cautiously when we are asked to extend patent rights into areas wholly unforeseen by Congress."). That sound policy, which the decisions in this case, App. 21a-25a, and *AT&T*, 414 F.3d at 1369-72, make clear has been ignored by the Federal Circuit, is particularly worthy of respect in the context of an effort to apply United States law to overseas conduct. Patents provide their holders with state-sanctioned market exclusivity. It is particularly intrusive upon the sovereignty of a foreign state to prohibit or penalize the manufacture and sale of goods in that nation by force of U.S. patent protection, even if the U.S. patentholder has not secured or could not secure patent protection in the

foreign nation. See *Deepsouth*, 406 U.S. at 531 (stating that "[t]o the degree that the inventor needs protection in markets other than those of this country [he should] seek it abroad through patents secured in countries where his goods are being used.").

The policy against expansion of patent protection through court action is also in keeping with this Court's general approach to statutory interpretation. This Court has said that statutes should be interpreted in a way "which fits most logically and comfortably into the body of ... previously ... enacted law." *West Virginia Univ. Hosps., Inc.* v. *Casey*, 499 U.S. 83, 100 (1991); *Dewsnup* v. *Timm*, 502 U.S. 410, 419 (1992) (courts do not read statutes fundamentally to change statutory framework absent some clear indication of congressional intent). The Federal Circuit's interpretation of § 271(f) does serious violence to the settled general policy against extraterritorial application of the patent laws (from which § 271(f) is a narrow exception).

Finally, the plain language of § 271(f) fully supports the narrow view proposed by Microsoft but rejected by the Federal Circuit. *FDIC* v. *Meyer*, 510 U.S. 471, 476 (1994). As noted above, one does not typically speak of the "design" of, say, a car as a "component" of the car. The design is, however, "incorporated" into the car in the same way that the software design algorithm recorded on the golden master is "incorporated" into a computer programmed with Windows®. App. 22a. Likewise, one does not typically speak of the process of assembling a car as a "combination" of its parts and its design. Yet the Federal Circuit's interpretation of § 271(f) depends upon this unnatural reading of these critical statutory terms.

Limiting § 271(f) to the supply of physical parts of a foreign-assembled product, that is, limiting § 271(f) to the circumstances that brought it into existence—legislatively closing the *Deepsouth* "loophole"—gives effect to the plain meaning of the provision without revolutionizing patent law.

This Court should grant this petition to bring the interpretation of § 271(f) into line with this Court's consistent statements regarding the extraterritoriality of patent law, and with this Court's general principles of statutory interpretation.

3. The economic consequences of the Federal Circuit's overbroad interpretation of § 271(f) mark this case as exceptionally important, warranting this Court's review. As noted above, the Federal Circuit's interpretation of § 271(f) threatens any person who exports design information concerning a patented product with massive infringement liability. The court's ruling thus casts a pall over the cross-border flow of design information from the United States. Given the status of the United States as one of the world's leaders in innovative design of useful products—not just software but across a variety of industries such as electronics, pharmaceuticals, and manufacturing[6]—the Federal Circuit's ruling potentially carries a variety of serious economic consequences.

The most obvious consequence is that leading design-producers will move their operations overseas to avoid the reach of the Federal Circuit's rule in this case. The Federal Circuit's rule places a domestic design company (like Microsoft) at a disadvantage relative to its foreign competitors. If a U.S.-based firm were to run afoul of some unknown patent, it, unlike its foreign counterparts, would face patent liability for worldwide sales. The foreign-based company faces potential liability (under U.S. law) only for U.S. sales. Before an important segment of this country's

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[6] An analysis conducted by *Technology Review* and published in December 2004 indicates that U.S.-based companies in various technology-heavy sectors spent more than $102 billion on research and development in 2003 alone. Stacy Lawrence, *Corporate R&D Scorecard 2004*, Tech. Rev., Dec. 2004, at 68-71, *available at* http://www.technologyreview.com/articles/04/12/scorecard21204.pdf. That includes research and development spending of more than $8 billion by U.S.-based software companies.

information-based economy is placed at a competitive disadvantage based on an unsupported and novel interpretation of a provision of the patent laws, this Court should review the issue.

Similarly, the Federal Circuit's rule will distort investment decisions about where to locate new research and development operations in such information-based and information-intensive industries as computer hardware and software, pharmaceutical products, or sophisticated manufacturing. The ease with which information can be transferred in the digital age makes the physical location of a company's research and development operations less driven by geographic considerations than ever before. The software industry in particular, where the "product" is information—computer code—can at the push of a button deliver its product from anywhere in the world to anywhere in the world. If the legal exposure of settling research and development operations overseas is substantially less—and under the Federal Circuit's new rule it will be—companies will have a powerful incentive to relocate those operations outside the U.S.

Finally, the Federal Circuit's interpretation of § 271(f) raises serious concerns regarding relations with our trading partners. International agreements such as the *Agreement on Trade-Related Aspects of Intellectual Property Rights* ("TRIPS Agreement"), and the *Paris Convention for the Protection of Industrial Property* (*see supra* at 12 n.3 & 16 n.5) establish the fundamental premise that patent rights are territorial and independent in nature. Where the United States and other countries have elected to limit the territorial and independent nature of their patents, they have done so explicitly in these agreements.[7] No international agreement

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[7] For example, Article 28.1 of the TRIPS Agreement defines what exclusive rights each country must confer with the grant of a patent. The only rights that must be conferred are those that give rights to

exists that has extended the effect of a patent as far as the Federal Circuit's construction of § 271(f). The Federal Circuit's rule intrudes on the basic premise of sovereign authority over patents which underlies these agreements. Were other nations to respond in-kind, the result could be a substantial slowing of the cross-border flow of information and a broader exposure of U.S. companies to liability in other countries.

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products made by acts performed abroad that, if performed in the territory of the country, would infringe the domestic patent. *See* TRIPS Agreement, art. 28.1(b), 33 I.L.M. at 1208 ("where the subject matter of a patent is a process, to prevent third parties not having the owner's consent from the act of using the process, and from the acts of: using, offering for sale, selling, or importing for these purposes at least the product obtained directly by that process."). *See also* WIPO, *Paris Convention*, art. *5qater* ("When a product is imported into a country of the Union where there exists a patent protecting a process of manufacture of the said product, the patentee shall have all the rights, with regard to the imported product, that are accorded to him by the legislation of the country of importation, on the basis of the process patent, with respect to products manufactured in that country.").

CONCLUSION

This petition for writ of certiorari should be granted.

Respectfully submitted,

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APPENDICES

APPENDIX A

UNITED STATES COURT OF APPEALS
FEDERAL CIRCUIT

No. 04-1234

EOLAS TECHNOLOGIES INCORPORATED and the Regents of the University of California,
Plaintiffs-Appellees,

v.

MICROSOFT CORPORATION,
Defendant-Appellant.

March 2, 2005

Rehearing and Rehearing En Banc Denied May 3, 2005.*

Before RADER, Circuit Judge, FRIEDMAN, and PLAGER, Senior Circuit Judges.

RADER, Circuit Judge.

The United States District Court for the Northern District of Illinois granted final judgment to Eolas Technologies Incorporated and the Regents of the University of California (collectively, Eolas) after a jury found that Microsoft Corporation (Microsoft) infringed claims 1 and 6 of U.S. Patent No. 5,838,906 (the '906 patent) and actively induced United States users of Internet Explorer to infringe claim 1. The district court also invoked 35 U.S.C. § 271(f) to include foreign sales of Internet Explorer in the royalty awarded to Eolas. Because the district court improperly granted judg-

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* Circuit Judge Garjarsa and Circuit Judge Dyk did not participate in the vote.

ment as a matter of law (JMOL) in Eolas' favor on Microsoft's anticipation and obviousness defenses and improperly rejected Microsoft's inequitable conduct defense, this court vacates the district court's decision and remands for a new trial on these issues. In addition, this court affirms the district court's claim construction of "executable application" and finds the district court did not err in its jury instruction with regard to the claim limitation "utilized by said browser to identify and locate." Finally, this court affirms the district court's holding that "components," according to section 271(f)(1), includes software code on golden master disks.

I.

On February 2, 1999, Eolas brought an infringement action against Microsoft. In particular, Eolas alleged infringement of claims 1 and 6 of the '906 patent.[1] The '906 patent carries the title "distributed hypermedia method for automatically invoking external application providing interaction and display of embedded objects within a hypermedia document." Eolas alleged that certain aspects of Microsoft's Internet Explorer (IE) product incorporate its invention. Microsoft denied infringement and asserted that the claims were invalid and unenforceable.

Essentially, the claimed invention allows a user to use a web browser in a fully interactive environment. For example, the invention enables a user to view news clips or play games across the Internet. The '906 claims require a web browser with certain properties. Specifically, the invention calls for a browser located in a "distributed hypermedia environment."

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[1] The University of California filed the '906 Patent on October 17, 1994, which later issued on November 17, 1998. The University later granted an exclusive license for the '906 Patent to Eolas. A reexamination of the '906 Patent was ordered by the Director and is currently pending in the United States Patent and Trademark Office. *See* Director Initiated Order for Reexamination, Control No. 90/006,831.

In operation, the claimed browser locates a web page, or distributed hypermedia document, with a uniform resource locator (URL). Then the browser parses the text of the web page including an "embed text format" specifying an object external to the web page that has "type information associated with it" (i.e., spreadsheets, databases). The browser next uses that type information to identify and locate an executable application that automatically enables interactive viewing of the object. The inventors have consistently maintained that "[t]his invention was the first instance where interactive applications were embedded in Web pages." The district court found that the invention was reduced to practice no later than January 27, 1994, when it was presented at a Web conference.

During prosecution of the '906 patent, the examiner rejected the claims several times for obviousness. Besides the World Wide Web, HTTP and HTML, the examiner cited three main prior art references during prosecution: (1) the Mosaic Web Browser, which allows users to go from one website to another by clicking links on web pages and has some capability to display objects; (2) U.S. Patent No. 5,206,951 to Khoyi et al. (Khoyi), which describes an Object Linking and Embedding System (OLE);[2] and (3) U.S. Patent No. 5,581,686 to Koppolu et al. (Koppolu), which covers some OLE technology where the application displaying data may be a component, such as an object handler that is implemented as a Dynamically Linked Library (DLL).[3] The examiner allowed the claims on March 30, 1998.

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[2] OLE allows a visual object or data created using one application to be displayed and edited in another application.

[3] An example of a DLL is spell check; a DLL is a component that can run only within another application. *Compare* a standalone application, such as Word or Excel, which can run independently of another application. An implementation of OLE technology would be using a standalone application, such as Word which may then utilize a component or DLL such as spell check.

Microsoft's Invalidity Defenses

At trial, Microsoft presented evidence that the Viola Web browser (Viola), invented by Pei-Yuan Wei (Wei), was in public use more than one year before Eolas' invention. Microsoft asserted that this prior art would invalidate the invention under 35 U.S.C. § 102(b). Microsoft also used the Viola reference to challenge validity on the basis of sections 102(a), 102(g) and 103. Wei testified at trial that he had written code for Viola so that the browser could handle embedded automatically-launched interactive programs in May 1993. Wei testified as well that he demonstrated that capability to Sun Microsystems engineers at that time. Microsoft corroborated existence of this code at trial through a computer demonstration of an archived file, dated May 12, 1993. The parties refer to this version of Viola as DX34. Wei demonstrated DX34 to two Sun Microsystems engineers on May 7, 1993.

Wei also demonstrated a different version of Viola to the district court. This second exhibit, DX37, was allegedly Wei's attempt on May 27, 1993, to improve DX34. Apparently due to a bug in the program, Wei could not make the DX37 version function in the courtroom in conjunction with the Internet. Microsoft's technical expert testified that both versions of the Viola code taught all of the limitations of the claims at issue.

The district court found as a matter of law that Wei abandoned, suppressed or concealed DX34 within the meaning of section 102(g) because Wei disclosed that version only to the Sun engineers and then changed it. The district court extended this finding to section 102(b) and found as a matter of law that since DX34 was abandoned, showing it to the Sun engineers could not constitute a public use. The district court prevented Microsoft from presenting any evidence of DX34 to the jury and later granted Eolas' Rule 50 motion for JMOL in ruling that neither the anticipation nor obviousness de-

fenses could be presented to the jury after hearing testimony on those issues from Microsoft's expert.

Microsoft's Inequitable Conduct Defense

Michael D. Doyle (Doyle), one of the inventors of the '906 patent, knew of Viola yet did not disclose any information regarding that reference to the United States Patent and Trademark Office (PTO). On August 31, 1994, Doyle issued a press release to an e-mail list indicating that researchers at the University of California had "created software for embedding interactive program objects within hypermedia documents." That same day, Wei contacted Doyle via e-mail in response to the press release. Wei alleged that his May 1993 demonstration of Viola (version DX34) to Sun Microsystems engineers exhibited a way to embed interactive objects and transport them over the web. Wei directed Doyle to his paper about Viola (the Viola paper), which was available on the Internet at least by August 13, 1994. Doyle downloaded and read the paper. In a later email exchange, Doyle attempted to get Wei to concede that he was not the first to invent. Additionally, Doyle told Wei the inventions were different.

On October 17, 1994, the University of California filed the '906 patent application. In 1998, before issuance of the '906 patent, Doyle did more research on Viola and made a folder labeled "Viola stuff." This folder included press releases of two "beta"[4] versions of Viola from February and March of 1994. Although available on the Internet, Doyle never obtained the Viola code.

The district court found that Doyle's knowledge of Viola was not enough to trigger his obligation to bring it to the

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[4] A "beta" release occurs after the development stage and allows general users to try new software. An "alpha" release is a version for specialists to test to provide feedback to the software's author.

attention of the examiner of the '906 patent. The district court determined that Viola was not prior art and as such not material. Although questioning Doyle's credibility about his role in the prosecution of the patent, the trial court nonetheless found that he had acted with candor before the PTO because "it was the law and it was too dangerous not to do so."

Claim Construction for Infringement

Claim 1 is a method claim; claim 6 a product claim. The parties and the district court focused on claim 6 to interpret the claims because Eolas asserted that the computer program product in claim 6 embodies the method of claim 1. Claim 6 reads:

> 6. A computer program product for use in a system having at least one client workstation and one network server coupled to said network environment, wherein said network environment is a distributed hypermedia environment, the computer program product comprising:
>
> a computer usable medium having computer readable program code physically embodied therein, said computer program product further comprising:
>
> computer readable program code for causing said client workstation to execute a browser application to parse a first distributed hypermedia document to identify text formats included in said distributed hypermedia document and to respond to predetermined text formats to initiate processes specified by said text formats;
>
> computer readable program code for causing said client workstation to utilize said browser to display, on said client workstation, at least a portion of a first hypermedia document received over said network from said server, wherein the portion of said first hypermedia document is displayed within a first browser-controlled

> window on said client workstation, wherein said first distributed hypermedia document includes an embed text format, located at a first location in said first distributed hypermedia document, that specifies the location of at least a portion of an object external to the first distributed hypermedia document, wherein said object has type information associated with it *utilized by said browser to identify and locate* an *executable application* external to the first distributed hypermedia document, and wherein said embed text format is parsed by said browser to automatically invoke said executable application to execute on said client workstation in order to display said object and enable interactive processing of said object within a display area created at said first location within the portion of said first distributed hypermedia document being displayed in said first browser-controlled window.

U.S. Patent No. 5,838,906 (issued Nov. 17, 1998), col. 17, ll. 58-col. 18, ll. 30 (emphases added). After a Markman hearing, the district court construed the terms "executable application" and "utilized by said browser to identify and locate." *Eolas Techs., Inc. v. Microsoft Corp.*, No. 99 C 0626, 2000 WL 1898853 (N.D.Ill. Dec. 29, 2000). The district court determined that "executable application" as used in the '906 patent refers to "any computer program code, that is not the operating system or a utility, that is launched to enable an end user to directly interact with data." *Id.* 2000 WL 1898853, at *13. The district court also determined that "utilized by said browser to identify and locate" means that "the enumerated functions are performed by the browser." *Id.* Microsoft appeals the "executable application" claim construction and the jury instruction given with regard to the term "utilized by said browser to identify and locate."

The jury instruction regarding "utilized by said browser to identify and locate" included in relevant part:

> Utilized by said browser to identify and locate means that the enumerated functions are performed by the browser . . . . The inventors contemplated the browser's use of some outside resources such as the operating system as operating systems are always involved in the operation of computer programs. Nevertheless it must be the browser, not the operating system, that must do the heavy lifting of identifying and locating . . . .

Statutory Construction of 35 U.S.C. § 271(f)

Eolas claimed royalty damages for both foreign and domestic sales of Windows with IE. Microsoft moved, in limine, to prevent Eolas from seeking damages based on foreign sales under section 271(f).

Microsoft exports a limited number of golden master disks containing the software code for the Windows operating system to Original Equipment Manufacturers (OEMs) abroad who use that disk to replicate the code onto computer hard drives for sale outside of the United States. The golden master disk itself does not end up as a physical part of an infringing product. The district court denied Microsoft's motion, finding that source code is the legal equivalent of a piece of computer hardware and that "in a legal sense, a[sic] source code is a made part of a computer product." The district court determined that the code on the golden master disks constitutes "components" of an infringing product for combination outside of the United States under section 271(f).

After a jury trial, the district court entered judgment in favor of Eolas. The district court found that: (1) Microsoft did not show invalidity of the '906 claims; (2) Microsoft did not proffer clear and convincing evidence of inequitable conduct; (3) Microsoft infringed claims 1 and 6 and actively

induced United States users of IE to infringe claim 1; and (4) Eolas's royalty for Microsoft's infringement should include foreign sales of the patented computer code under section 271(f). The jury awarded Eolas a royalty of $1.47 per unit of infringing product, which amounted to a total award of $520,562,280. In its order, the district court issued a permanent injunction against Microsoft and awarded pre-judgment interest on the award. The permanent injunction has been stayed pending this appeal. This court has jurisdiction under 28 U.S.C. § 1295(a)(1).

II.

Anticipation is a question of fact, which this court reviews for substantial evidence. *In re Hyatt*, 211 F.3d 1367, 1371 (Fed.Cir.2000). Obviousness is a question of law premised on underlying findings of fact. *Graham v. John Deere Co.*, 383 U.S. 1, 17-18, 86 S.Ct. 684, 15 L.Ed.2d 545 (1966). This court "review[s] a grant of JMOL de novo, reapplying the district court's JMOL standard anew." *Union Carbide Chems. & Plastics Tech. Corp. v. Shell Oil Co.*, 308 F.3d 1167, 1185 (Fed.Cir.2002). "In evaluating a Rule 50(a) motion, this court must examine the evidence to determine whether a jury could properly proceed to find a verdict for the party producing it, upon whom the onus of proof is imposed. In this regard, this court must view the evidence in a light most favorable to the non-moving party." *Mahurkar v. C.R. Bard, Inc.*, 79 F.3d 1572, 1576 (Fed.Cir.1996) (internal quotations omitted). This court reviews inequitable conduct for an abuse of discretion; "[t]he underlying factual issues of materiality and intent [are reviewed] for clear error." *CFMT, Inc. v. Yieldup Int'l Corp.*, 349 F.3d 1333, 1337 (Fed.Cir.2003).

This court reviews claim construction without deference. *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 979 (Fed.Cir.1995) (en banc). "The question of whether a jury instruction on an issue of patent law is erroneous is a matter

of Federal Circuit law and is reviewed de novo." *Sulzer Textil A.G. v. Picanol N.V.*, 358 F.3d 1356, 1363 (Fed.Cir.2004). Lastly, "[t]his court reviews questions of statutory interpretation without deference." *U.S. Steel Group v. United States*, 225 F.3d 1284, 1286 (Fed.Cir.2000).

III.

PRIOR ART DEFENSES

As explained above, the district court found as a matter of law that DX34 was abandoned, suppressed or concealed within the meaning of section 102(g) because Wei disclosed that version to Sun Microsystems' engineers and then changed it. The district court extended this finding to section 102(b), finding that abandonment of DX34 meant that the disclosure to the Sun Microsystems engineers could not constitute a public use. The district court prevented Microsoft from presenting any evidence of DX34 to the jury and later granted Eolas' Rule 50 motion for JMOL that DX37 did not anticipate or render the '906 patent obvious. Consequently, the jury did not consider Microsoft's anticipation and obviousness defenses.

The district court erred in finding as a matter of law that DX34 was abandoned, suppressed, or concealed within the meaning of section 102(g). The relevant portion of section 102(g) states:

> A person shall be entitled to a patent unless—
>
> (g) (2) before such person's invention thereof, the invention was made in this country by another inventor who had not abandoned, suppressed, or concealed it.

35 U.S.C. § 102(g) (2004).

This court's case law distinguishes between two types of conduct that invoke the exception within section 102(g). *Apotex USA, Inc. v. Merck & Co.*, 254 F.3d 1031, 1038

(Fed.Cir.2001). The first arises when an inventor actively conceals his invention from the public. *Fujikawa v. Wattanasin*, 93 F.3d 1559, 1567 (Fed.Cir.1996). Active concealment "refers to situations in which an inventor designedly, and with the view of applying it indefinitely and exclusively for his own profit, withholds his invention from the public." *Id.* The second occurs when "abandonment, suppression, or concealment may be inferred based upon the prior inventor's unreasonable delay in making the invention publicly known." *Dow Chem. Co. v. Astro-Valcour, Inc.*, 267 F.3d 1334, 1342 (Fed.Cir.2001).

This case does not fit into either category. The record contains no evidence that Wei either intentionally withheld DX34 from the public or unreasonably delayed a patent application or public disclosure. In contrast, the record indicates Wei not only demonstrated DX34 to two Sun Microsystems engineers without a confidentiality agreement (on May 7, 1993), but only twenty-four days later (on May 31, 1993) posted DX37 on a publicly-accessible Internet site and notified a Sun Microsystems engineer that DX37 was available for downloading. The district court erroneously concluded that the creation and public disclosure of DX37, an improved version of DX34, "abandoned" the invention under section 102(g).

The district court's conclusion inappropriately narrowed the definition of "invention," as used in section 102(g). This court's interference case law illustrates this point. In interference cases, one party will sometimes assert that the other party abandoned the invention by unreasonably delaying disclosure of the invention after first reducing it to practice. However, this court excuses delay between the first reduction to practice and public disclosure if the inventor continued to refine, perfect, or improve the invention. *Lutzker v. Plet*, 843 F.2d 1364, 1367 (Fed.Cir.1988) ("An inference of suppression or concealment may be overcome with evidence that the

reason for the delay was to perfect the invention."). "The law does not punish an inventor for attempting to perfect his process before he gives it to the public. In fact, reasonable experimentation is frequently encouraged." *Frey v. Wagner*, 24 C.C.P.A. 823, 87 F.2d 212, 215 (1937).

In this case, DX37, which includes the same contested feature as DX34, represents an improved version of Wei's invention, not an entirely new invention, as the district court suggests. Because creating an improved version of an invention does not in any sense abandon the original invention, the district court erroneously excluded DX34 as prior art. Improvements may enhance an invention prior to disclosure or patent application. If improvements caused loss of the original invention under the erroneous rule adopted by the district court, the public would lose the benefit of diligent efforts to produce a more useful product. Eolas' arguments that Wei's changes to the functionality and architecture of DX34 show abandonment are unpersuasive because such changes merely reflect improvements in advancing versions of software code. Thus, this court remands for proceedings to consider whether DX34 is prior art and, if so, whether it invalidates the '906 patent.

This court also reverses the district court's finding that Wei's May 7, 1993, demonstration to two Sun Microsystems employees without confidentiality agreements did not constitute a public use under section 102(b). "Public use [under 35 U.S.C. § 102(b)] includes any use of the claimed invention by a person other than the inventor who is under no limitation, restriction or obligation of secrecy to the inventor." *Netscape Communications Corp. v. Konrad*, 295 F.3d 1315, 1320 (Fed.Cir.2002). Because the Sun Microsystems employees were under no limitation, restriction or obligation of secrecy to Wei, this court determines the demonstration may constitute a public use.

The district court erred in linking its section 102(b) public use finding to its section 102(g) abandonment finding. A public use under section 102(b) cannot be undone by subsequent actions. The inquiry into a section 102(b) public use proceeds independent of the inquiry into a section 102(g) abandonment. "[N]otwithstanding abandonment of the prior use—which may preclude a challenge under section 102(g)—prior knowledge or use by others may invalidate a patent under section 102(a) if the prior knowledge or use was accessible to the public." *Woodland Trust v. Flowertree Nursery*, 148 F.3d 1368, 1370 (Fed.Cir.1998). Similarly, third party prior use accessible to the public is a section 102(b) bar. *See Baxter Int'l, Inc. v. COBE Labs., Inc.*, 88 F.3d 1054, 1058-59 (Fed.Cir.1996).

Netscape Communications Corp. v. Konrad, 295 F.3d 1315 (Fed.Cir.2002), informs the application of these principles to this case. In *Netscape*, Konrad owned three computer-related patents. 295 F.3d at 1318. This court affirmed a finding of invalidity based on Konrad's prior demonstration of the invention to two employees at the University of California without any obligation of confidentiality. *Id.* at 1319. Similarly, in the case at bar, Wei demonstrated DX34 to two Sun engineers who were under no confidentiality obligation. Indeed, the Sun engineers informed Wei that they intended to share information gleaned from Wei with other people at Sun. Eolas attempts to distinguish *Netscape* on the basis that Konrad was the patentee in that case, whereas here, Wei is a third party. However, a third party may, and often does, initiate a public use. *See, e.g., Baxter*, 88 F.3d at 1058-59. Therefore, Wei's third-party disclosure may erect a public use bar.

Eolas further points to *W.L. Gore & Associates, Inc. v. Garlock, Inc.*, 721 F.2d 1540, 1550 (Fed.Cir.1983), to advance its position that section 102(b) does not apply in this case. In *Gore*, a third party used the patented invention more

than one year prior to the patentee's application date and the court found no public use. *Id.* at 1549. *Gore* represents a different factual situation. The third party in *Gore* deliberately chose to keep the invention as a trade secret and avoid disclosure through a patent application. Accordingly, the *Gore* third party had a confidentiality agreement in place with its employees to prevent public disclosure of the method whose subject matter could not otherwise be publicly discerned. *Id.* This court found the *Gore* third party could not both elect to avoid the patent system and still invoke that system to erect a third-party public use bar to an inventor who disclosed the invention for patenting. Thus, the secret activity in *Gore* did not constitute public use. *Id.* This case, however, is very different. Wei made no attempt to maintain confidentiality or to deliberately evade disclosure. Wei's activities may erect a third party public use bar.

In addition, this court vacates the district court's JMOL that DX37 did not anticipate the '906 patent. To anticipate, a single reference must teach each and every limitation of the claimed invention. *See EMI Group N. Am., Inc. v. Cypress Semiconductor Corp.*, 268 F.3d 1342, 1350 (Fed.Cir.2001). When viewed in "a light most favorable" to Microsoft, the testimony by Microsoft's expert, Dr. Kelly, presents a question of fact as to whether DX37 anticipates the '906 patent. *See Mahurkar v. C.R. Bard, Inc.*, 79 F.3d 1572, 1576 (Fed.Cir.1996).

Dr. Kelly testified that DX37 is in a computer usable medium with a program for use in a distributed hypermedia environment. Further, Dr. Kelly observed key features in DX37, such as a method to parse a hypermedia document to identify text formats, to display at least a portion of the hypermedia document on a client workstation, to include an embed text format that specifies the location of an object external to the hypermedia document, to identify and locate an executable application, and to automatically display the

object and enable the user to interact with it. This testimony arguably supports Microsoft's argument that DX37 teaches all of the limitations of the '906 patent. The district court dismissed Dr. Kelly's testimony as "conclusory." This court hesitates to disturb the district court's role in assessing evidence, but anticipation is a question of fact. Accordingly, this particular determination lay within the province of the jury.

The district court also erred in its granting JMOL on obviousness. Dr. Kelly's testimony provided sufficient evidence to survive JMOL. In his testimony, Dr. Kelly discussed: (1) the scope of DX34 and DX37; (2) the potential differences between DX34 and DX37 and the claimed invention; and (3) the state of the art and the level of skill in the art in 1993. Dr. Kelly's testimony could also be read to provide a suggestion to use a browser in a distributed hypermedia environment as in the claimed invention. Although Microsoft's direct examination of Dr. Kelly focused on anticipation, the information solicited from Dr. Kelly might also support an argument of obviousness in the alternative. In light of this court's determination that DX34 was not abandoned or concealed, Microsoft should also have the opportunity to present DX34 as part of its obviousness defense. *See Panduit Corp. v. Dennison Mfg. Co.*, 810 F.2d 1561, 1568 (Fed.Cir.1987) (indicating that a key preliminary legal inquiry in obviousness analysis is: "what is the prior art?"). Weighing the facts in favor of the non-moving party, as required by Rule 50, a reasonable jury should have the opportunity to determine whether the claimed invention would have been obvious at the time of invention based on the record.

In sum, with respect to the district court's prior art rulings, this court finds: the district court erred in finding as a matter of law that DX34 was abandoned, suppressed or concealed within the meaning of section 102(g); Wei's May 7, 1993

demonstration to two Sun Microsystems employees without confidentiality agreements was a public use under section 102(b); and the district court erred in its JMOL that DX37 did not as a matter of law anticipate or render the '906 patent obvious. As a result, this court remands for additional proceedings on these issues.

INEQUITABLE CONDUCT

This court also vacates the district court's decision on inequitable conduct. Again the district court based its inequitable conduct finding on the misunderstanding that Viola could not possibly constitute prior art. Relying on that erroneous determination, the district court concluded that Viola could not be material to patentability. As discussed above, the district court erred in determining that DX34 was abandoned, suppressed or concealed within the meaning of section 102(g). Further, the district court did not explain a reason for declining to consider DX37, also created prior to Doyle's invention, as immaterial to patentability of the '906 patent. In respect to potential prior art software under section 102(b), this court has explained that the software product constitutes prior art, not necessarily the later published abstract associated with that software product. *In re Epstein*, 32 F.3d 1559, 1567-68 (Fed.Cir.1994). Similarly, in the case at bar, the Viola browser itself, not the later developed Viola paper or "Viola stuff" file, constitutes prior art. On remand, the district court will have an opportunity to include this potential prior art in its inequitable conduct inquiry. At the same time, the district court may reconsider its findings on Doyle's intent to deceive the PTO.

CLAIM CONSTRUCTION

When interpreting disputed claim terms, this court accords claim terms their customary meaning in the art at the time of invention. *Home Diagnostics, Inc. v. Lifescan, Inc.*, 381 F.3d 1352, 1355 (Fed.Cir.2004). Further, a construing court

should consult the specification to determine whether the patentee gave a claim term a meaning inconsistent with that customary meaning in the proper technological and temporal context. *Metabolite Labs., Inc. v. Lab. Corp. of Am. Holdings*, 370 F.3d 1354, 1360 (Fed.Cir.2004).

The district court construed "executable application" to mean "any computer program code, that is not the operating system or a utility, that is launched to enable an end user to directly interact with data." Microsoft asserts that this term should be construed as "standalone programs." Because, absent a disclaimer, the claims of the '906 patent are not limited to the embodiments listed in the specification, this court affirms the district court's construction.

As construed by the district court, "executable application" includes applications or components that are not standalone, i.e., DLLs such as spell check. Such applications or components can only run when invoked by some other application. Microsoft asserts that its construction is consistent with the ordinary meaning of the term and that the specification does not otherwise define the term. Microsoft correctly points out that all of the disclosed embodiments in the specification describe standalone programs (i.e., word processors and spreadsheets). Nonetheless, absent a clear disclaimer in the specification, the embodiments in the specification do not limit broader claim language. *Liebel-Flarsheim Co. v. Medrad, Inc.*, 358 F.3d 898, 907-08 (Fed.Cir.2004).

The record shows that the term "executable application" does not have a customary meaning in the computer science field. Therefore, the district court appropriately declined to impose a sharp limitation on its scope. Accordingly, the trial court correctly perceived that "application" means "a computer program, that is not the operating system or a utility, that is designed to allow an end-user to perform some specific task." The district court also found support for this

meaning in technical dictionaries. For instance, the 1994 Microsoft Press Computer Dictionary defined "application" as "a computer program designed to help people perform a certain type of work. An application thus differs from an operating system (which runs a computer), a utility (which performs maintenance or general-purpose chores), and a language (with which computer programs are created). . . ." Microsoft Press Computer Dictionary 23-24 (2d ed.1994). A few years later, the same dictionary defined "application" as "a program designed to assist in the performance of a specific task, such as word processing, accounting, or inventory management. *Compare* utility." Microsoft Press Computer Dictionary 27 (3d ed.1997). Still another source on the meaning of technical language defines "application" as a "program or group of programs designed for end users." ZD Webopaedia, at *http:// www.zdwebopedia. com/TERM/a/ application.html.*

Neither the specification nor the prosecution history disclaims the district court's construction of "executable application." The '906 patent makes no reference to the phrase "executable application" except in the claims. *See generally* the '906 patent. In addition, the specification repeatedly indicates that the preferred embodiment is only one possibility for practice of the invention. *Id.* Because this court "consistently declines to construe claims according to the preferred embodiment," this court agrees with the district court that Microsoft's proposed construction, limiting "executable application" to standalone programs, does not comport with the entire technological and temporal context for this term. *N. Telecom Ltd. v. Samsung Elecs. Co.*, 215 F.3d 1281, 1293 (Fed.Cir.2000).

The prosecution history does not disclaim the district court's construction of "executable application," and thus supports the trial court's reading of the term. According to Microsoft, the applicants argued that the Khoyi patent used

library routines (i.e., components), while their invention did not. In addition, Microsoft claims the applicants argued the Koppolu patent taught away from using standalone applications. A review of the prosecution history does not show any disclaimer as Microsoft contends.

The applicants distinguished Khoyi on the grounds that the display of the data object provided by the Khoyi functionality was not interactive, and in the '906 invention such interactivity could be achieved "without requiring Khoyi-like capabilities in the operating system." Thus, the applicants distinguished Khoyi on the feature of interactivity, not on its use of standalone programs. While the applicants included language about library routines and DLLs in their response, they did not distinguish the '906 invention based on these features, rather such features were merely included in language that outlined Khoyi's operation. Similarly, the applicants distinguished Koppolu by pointing out that the particular kind of object handlers of Koppolu did not allow interactive processing of the object, because Koppolu did not enable such editing of the object.

In light of the applicant's arguments distinguishing Khoyi and Koppolu, the examiner's statement that "the claimed external executable application is not a code library extension nor object handler (e.g. windows dll and OLE) as pointed out in applicant's argument. (Paper # 19 pages 12-14)," appears in the context of the applicant's narrow argument. Thus, the examiner's statement also does not evince a clear disclaimer. The arguments the examiner cited in the Reasons for Allowance simply describe OLE object handlers. The applicants cite problems with OLE object handlers, but do not disclaim anything. They simply argue that the cited references do "not disclose or suggest the missing features." In addition, the applicant has "no obligation to respond to an examiner's statement of Reasons for Allowance, and the statement of an examiner will not necessarily limit a claim."

ACCO Brands, Inc. v. Micro Sec. Devices, 346 F.3d 1075, 1079 (Fed.Cir.2003); *see also N. Telecom Ltd.*, 215 F.3d at 1294 (requiring that prosecution history statements have "reasonable clarity and deliberateness" to narrow claim scope). Overall, without a narrow customary ordinary meaning for "executable application," the district court correctly gleaned the proper definition of the term from the intrinsic evidence including the patent claims and prosecution history.

Turning next to the jury instruction on "utilized by said browser to identify and locate," the district court informed the jurors that "[t]he inventors contemplated the browser's use of some outside resources such as the operating system." A review of the trial record shows that Microsoft waived its right to appeal this issue.

Microsoft commented on the proposed jury instructions to the district court. In discussing the particular sentence Microsoft now takes issue with, Microsoft's counsel stated to the district court, "It's undisputable, but it's also immaterial . . . the fact that operating systems are involved in the operation of computer programs, so what?" The district court sought at that point to clarify the record: "[N]o one is arguing here that the browser cannot use the operating system . . . it simply can't be done and, in essence, Microsoft is not taking the crazy position that what they mean is the browser can't use the operating system at all." Microsoft's counsel responded, "That's correct."

Thus, the record shows that Microsoft did not properly preserve this issue for appeal. "It is rare indeed for appellate relief to be granted when no objection was raised at trial . . . . Under such circumstances, the question devolves into whether an error occurred in the conduct of the trial that was so grievous as to have rendered the trial unfair." *Norian Corp. v. Stryker Corp.*, 363 F.3d 1321, 1329 (Fed.Cir.2004) (internal citation and quotation omitted). This court detects no grievous unfairness in this instruction despite Microsoft's

argument that a properly instructed jury could not have possibly found that the accused products infringe. As a whole, the jury instruction properly guided the jury. Thus, the district court did not err in its jury instruction on this disputed claim term.

35 U.S.C. § 271(f)

This court must also decide whether software code made in the United States and exported abroad is a "component[ ] of a patented invention" under section 271(f). Section 271(f)(1) states:

> Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such a manner as to actively induce the combination of such components outside the United States in a manner that would infringe the patent if such combination occurred within the United States shall be liable as an infringer.

35 U.S.C. § 271(f)(1) (2000). Section 271(f) refers to "components of a patented invention." This statutory language uses the broad and inclusive term "patented invention." Title 35, in the definitions section, defines "invention" to mean "invention or discovery"—again broad and inclusive terminology. 35 U.S.C. § 100(a) (2000). The next section in Title 35, section 101, explains that an invention includes "any new and useful process, machine, manufacture or composition of matter." 35 U.S.C. § 101 (2000). Without question, software code alone qualifies as an invention eligible for patenting under these categories, at least as processes. *See In re Alappat*, 33 F.3d 1526 (Fed.Cir.1994); *AT&T Corp. v. Excel Communications, Inc.*, 172 F.3d 1352 (Fed.Cir.1999); MPEP § 2106.IV.B.1.a. (8th ed., rev. 2 2001). The patented invention in this case is such a software

product. '906 patent, col. 17, ll. 58-col. 18, ll. 30. Thus, this software code claimed in conjunction with a physical structure, such as a disk, fits within at least those two categories of subject matter within the broad statutory label of "patented invention."

This statutory language did not limit section 271(f) to patented "machines" or patented "physical structures." Rather every form of invention eligible for patenting falls within the protection of section 271(f). By the same token, the statute did not limit section 271(f) to "machine" components or "structural or physical" components. Rather every component of every form of invention deserves the protection of section 271(f).

In examining the statutory language of section 271(f), this court must next examine whether the software code on the golden master disk is a "component" of the computer program invention. A "component" of a process invention would encompass method steps or acts. *See, e.g.*, 35 U.S.C. § 112, ¶ 6 (2000). A "component" of an article of manufacture invention would encompass a part of that construct. Because a computer program product is a patented invention within the meaning of Title 35, then the "computer readable program code" claimed in claim 6 of the '906 patent is a part or component of that patented invention.

Exact duplicates of the software code on the golden master disk are incorporated as an operating element of the ultimate device. This part of the software code is much more than a prototype, mold, or detailed set of instructions. This operating element in effect drives the "functional nucleus of the finished computer product." *Imagexpo, L.L.C. v. Microsoft, Corp.*, 299 F.Supp.2d 550, 553 (E.D.Va.2003). Without this aspect of the patented invention, the invention would not work at all and thus would not even qualify as new and "useful." Thus, the software code on the golden master disk is not only a component, it is probably the key part of this

patented invention. Therefore, the language of section 271(f) in the context of Title 35 shows that this part of the claimed computer product is a "component of a patented invention."

Sound patent policy also supports the meaning of section 271(f). In the first place, this court accords the same treatment to all forms of invention. *See, e.g.*, TRIPS Agreement, Part II, Section 5 (1994) ("[P]atents shall be available and patent rights enjoyable without discrimination as to the place of invention[ ][and] the field of technology . . . ."). This court cannot construct a principled reason for treating process inventions different than structural products. Moreover, as the district court pointed out, process and product—software and hardware—are practically interchangeable in the field of computer technology. *Eolas Techs., Inc. v. Microsoft Corp.*, 274 F.Supp.2d 972, 974 (N.D.Ill.2003). On a functioning computer, software morphs into hardware and vice versa at the touch of a button. In other words, software converts its functioning code into hardware and vice versa. Thus in the context of this patented invention, the computer transforms the code on the golden disk into a machine component in operation. Thus, sound policy again counsels against varying the definition of "component of a patented invention" according to the particular form of the part under consideration, particularly when those parts change form during operation of the invention as occurs with software code.

The legislative history of section 271(f) also supports the meaning carried by the language itself. Congress enacted section 271(f) in the wake of the United States Supreme Court's decision in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 92 S.Ct. 1700, 32 L.Ed.2d 273 (1972). *Deepsouth* acknowledged that unauthorized manufacturers of patented products could avoid liability for infringement under the then-existing law by manufacturing the unassembled components of those products in the United States and then shipping them outside the United States for assembly.

Section 271(f) closed that obvious loophole in the statutory protections for patented inventions. *Rotec Indus., Inc. v. Mitsubishi Corp.*, 215 F.3d 1246, 1252 n. 2 (Fed.Cir. 2000). One Congressional commentator stated this purpose expressly:

> Section 101 [of the Bill] makes two major changes in the patent law in order to avoid encouraging manufacturers outside the United States.
>
> . . . .
>
> [Section 271(f)] will prevent copiers from avoiding U.S. patents by supplying components of a patented product in this country so that the assembly of the components may be completed abroad. This proposal responds to the . . . decision in *Deepsouth* . . . concerning the need for a legislative solution to close a loophole in patent law.

130 Cong. Rec. H10525 (1984). These references again refer to correcting a loophole for all forms of patented inventions.

Microsoft and amici argue that Congress' use of "components" must be identical to the "components" of the patented invention in *Deepsouth*. In other words, since *Deepsouth* dealt with the components of a physical machine, section 271(f)'s "components" are limited to physical machines. This argument finds no support in the language or history of the statute.

As already noted, the language of section 271(f) does not impose a requirement of "tangibility" on any component of a patented invention. *See* Alan M. Fisch & Brent H. Allen, *The Application of Domestic Patent Law to Exported Software: 35 U.S.C. § 271(f)*, 25 U. Pa. J. Int'l Econ. L. 557, 575 (2004). In fact, neither the statute nor the legislative history contains a limitation to "components of machines and other structural combinations." *Id.* Microsoft, in effect, asks this court to add the word "physical" in front of "components" in

section 271(f). If the statute intended to limit the reach of "components of patented inventions," it would have expressly included some narrowing restriction. The statute simply does not include the limitation that Microsoft advocates.

Microsoft also argues this court's holding in *Pellegrini v. Analog Devices, Inc.*, 375 F.3d 1113 (Fed.Cir.2004), imposes a requirement that components in section 271(f) are physical. In the first place, this court in *Pellegrini* did not address the meaning of the "components" language in section 271(f). Moreover, Microsoft simply misreads the language of *Pellegrini*.

In *Pellegrini*, this court held that section 271(f) did not apply to components manufactured outside the United States and never physically shipped to or from the United States. 375 F.3d at 1118. The court then explained that

> '[s]uppl[ying] or caus[ing] to be supplied' in § 271(f)(2) clearly refers to physical supply of components, not simply to the supply of instructions or corporate oversight. In other words, although Analog may be giving instructions from the United States that cause the components of the patented invention to be supplied, it is undisputed that those components are not being supplied in or from the United States.

Id. Thus, *Pellegrini* requires only that components are physically *supplied* from the United States. *Pellegrini* does not impose on section 271(f) a tangibility requirement that does not appear anywhere in the language of that section.

In sum, the language and history of section 271(f)(1) as well as this court's law protecting software inventions support this court's holding that section 271(f)(1)'s "components" include software code on golden master disks.

IV.

In conclusion, because the district court improperly granted JMOL in Eolas' favor on Microsoft's anticipation and obviousness defenses and improperly rejected Microsoft's inequitable conduct defense, this court vacates the district court's decisions and remands for further proceedings on these issues. In addition, this court affirms the district court's claim construction of "executable application" and finds the district court did not err in its jury instruction with regard to the claim limitation "utilized by said browser to identify and locate." Finally, this court affirms the district court's holding that "components," according to section 271(f)(1), includes software code on golden master disks.

COSTS

Each party shall bear its own costs.

AFFIRMED-IN-PART, VACATED-IN-PART, and REMANDED

APPENDIX B

UNITED STATES DISTRICT COURT
N.D. ILLINOIS
EASTERN DIVISION

No. 99 C 626

EOLAS TECHNOLOGIES, INC. and the
Regents of the University of California,
Plaintiffs,

v.

MICROSOFT CORPORATION,
Defendant.

July 31, 2003

MEMORANDUM OPINION AND ORDER

ZAGEL, District Judge.

In this patent infringement case, Microsoft moves to bar plaintiffs from seeking damages on units of Windows with Internet Explorer produced and sold outside the United States if plaintiffs prevail on the merits.

The question of whether the accused product is "made" here has been long debated in this case. There is no clear governing precedent. I examine existing law to discern what constitutes "made" in the present context.

The two provisions of 35 U.S.C. § 271 that are applicable to this question are Sections 271(a) and (f). Under Section 271(a), there is a requirement that there be an "operable assembly" of the infringing products here before there can be liability. *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 92 S.Ct. 1700, 32 L.Ed.2d 273 (1972). In *Deepsouth*

Packing, the Court interpreted the word "makes" as used in Section 271(a) as referring to an "operable assembly," meaning that exports of unassembled component parts do not infringe a combination patent claiming the assembled whole. *Id.* at 527-29, 92 S.Ct. 1700. Microsoft is right when it says that to be liable under Section 271(a), all of the parts that must be put together in order for Internet Explorer to become an "operable assembly" includes its installation onto the hard drive of a computer. This takes place outside of the United States. There is no liability under Section 271(a).

Section 271(f) prohibits manufacturing all or a substantial part of the significant components of a patented invention here and then having those components assembled abroad. This law was Congress's disapproval of the ruling of *Deepsouth Packing*.

The intellectual property at issue in this case, namely the Windows source code, is contained on a computer disk, known as the "golden master." Microsoft provides this disk to foreign Original Equipment Manufacturers ("OEMs") pursuant to intellectual property licensing agreements for their use in making and selling abroad computer products containing Windows. According to Microsoft, new units of Windows code are created abroad when the foreign OEMs, for each unit, replicate the Windows code in its manufacturing facility using the single "golden master" and installs these new units of replicated code on a computer useable medium, such as a computer disk or hard drive, which is supplied by the foreign OEM. Microsoft argues that this "golden master" is not a component of the foreign sales products within the meaning of Section 271(f).

The closest cases are *W.R. Grace & Co. v. Intercat, Inc.*, 60 F.Supp.2d 316, 319-21 (D.Del.1999) and *Lubrizol Corp. v. Exxon Corp.*, 696 F.Supp. 302, 325 (N.D.Ohio 1988). In these cases the defendants sent chemical products abroad that were combined as supplied with other compounds into

compositions that would have infringed had the combination occurred here. Those judges found that there was liability under Section 271(f). Only one of these opinions offered a rationale but both relied on what they, and I, agree is the plain language of the statute.

Microsoft argues that the "golden master" is distinguishable from the chemical products in these cases. It asserts that the disk is analogous to the formula for those chemicals sent abroad, not the chemicals themselves and therefore, the disk is not a component of the allegedly infringing product.

The "golden master" is like a chemical formula in that it is a series of directions (commands) written down so that it can be used again and again. If followed, the formula produces a result which is desired by its user or purchaser.

The "golden master" is unlike a chemical formula because its contents are an operating element of the process which produces the result which is desired by a user or purchaser (like Paranox 300 and Paranox 600 when added to other ingredients made a better oil additive in *Lubrizol*).

A chemical formula can be memorized (as many complex recipes are) and discarded. The source code has to be installed, never to be discarded.

A philosophical argument can be made that installation of the source code is akin to memorizing it. But I think the recipe memory, of which we speak (in ordinary language) is not what we mean when we speak of computer memory.

The machine does not "remember"—it holds code and, unlike the human, that is all it does. The result desired by the user of the compound product of the programmable machine (a computer) and Windows code is made from code and hardware together. That which invokes the operation to secure a result (i.e., my finger pushing buttons) and the devices connected to the buttons are, in the important sense

here, external to the basic product. So too are the devices which input data. That which displays the machine's output is external in this way.

The devices which start the machine, input data, or display output are essential to the usefulness of the machine to users. Yet if the laptop on which I am writing this opinion had a power button stuck in the on position, a keyboard covered by a solid locked plate, and the screen was dead, but "my laptop" is still there. What is there is the internal hardware and the source code which operates, provides utilities, can browse and execute applications.

This analysis is not metaphysical. It is an analysis of language. It is appropriate because the goal is to find the meaning of ordinary language as it is used by lawyers and judges when deciding whether something is made and, if so, where it is made. Where code is installed on a disk or a hard drive to be put into a programmable machine, I conclude that source code in a computer product like my laptop is, in law, the legal equivalent of a piece of computer hardware and not the legal equivalent of a chemical formula.

In a legal sense, a source code is a made part of a computer product. In contrast, a chemical formula is discovered rather than made, and is not part of any product.[1]

I will not bar plaintiffs from seeking damages for units of Windows with Internet Explorer which are produced and sold outside this country.

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[1] A philosopher would find it difficult to draw the line between "making" and "discovering" a thing but judges are obliged to draw such lines. The judges' job is made a little (but not much) easier because we render our decision based on the way in which a thing is used.

APPENDIX C

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

[Filed May 3, 2005]

ORDER

A combined petition for panel rehearing and for rehearing en banc having been filed by the APPELLANT,* and a response thereto having been invited by the court and filed by the APPELLEES, and the petition for rehearing having been referred to the panel that heard the appeal, and thereafter the petition for rehearing en banc and response having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for panel rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the petition for rehearing en banc be, and the same hereby is, DENIED.

The mandate of the court will issue on May 10, 2005.

Circuit Judge GAJARSA and Circuit Judge DYK did not participate in the vote.

FOR THE COURT,

/s/ Jan Horbaly
JAN HORBALY
Clerk

Dated: May 3, 2005

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* Amicus curiae briefs were filed by:

1—The Business Software Alliance
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No. 05-288

Supreme Court, U.S.
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In The
Supreme Court of the United States

MICROSOFT CORPORATION,

Petitioner,

v.

EOLAS TECHNOLOGIES INCORPORATED AND THE REGENTS OF THE UNIVERSITY OF CALIFORNIA,

Respondents.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF IN OPPOSITION

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QUESTION PRESENTED

"[W]hether software code made in the United States and exported abroad is a 'component[] of a patented invention' under [35 U.S.C.] section 271(f)." *Eolas Techs., Inc. v. Microsoft Corp.*, 399 F.3d 1325, 1338 (Fed. Cir. 2005). (Pet. App. 21a.)

PARTIES TO THE PROCEEDINGS AND RULE 29.6 STATEMENT

There are no parties to the proceedings other than those listed in the caption.

Respondent Eolas Technologies Incorporated has no parent company, and no publicly held company owns 10 percent or more of its corporate stock.

Respondent The Regents of the University of California has no parent company and issues no stock.

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BRIEF IN OPPOSITION

Respondents Eolas Technologies Incorporated and The Regents of the University of California respectfully request that this Court deny the petition for a writ of certiorari.

OPINIONS BELOW

Besides the two opinions Microsoft cites and includes in its Appendix, there is one additional relevant opinion from the district court. The district court addressed whether Microsoft's Windows software on the golden master was a "component" of the patented invention in two places – not only in response to Microsoft's Motion in Limine (Pet. App. 27a-30a), but also in its unpublished January 14, 2004 "Consolidated Rulings on Post-Trial Motions," reprinted *infra* in Respondents' Appendix. It was this unpublished opinion that the Federal Circuit reviewed in the decision from which Microsoft seeks certiorari. (Pet. App. 1a-26a.)

JURISDICTION

While the Court has jurisdiction under 28 U.S.C. § 1254(1), this is an interlocutory appeal. Although the Federal Circuit left untouched the jury's infringement and damages verdict, it reversed and vacated the district court's decision on invalidity and inequitable conduct – so that Microsoft is not at present subject to a final judgment of patent infringement or damages – and remanded for further proceedings. (Pet. App. 15a-16a.) The case is now

awaiting retrial in the Northern District of Illinois. (Pet. App. 31a.)

STATEMENT OF THE CASE

Eolas Technologies Incorporated and The Regents of the University of California (collectively "Eolas") brought suit against Microsoft Corporation ("Microsoft") for infringement of U.S. Patent No. 5,838,906, related to interactivity on the Internet. Eolas asserted both claim 6 (apparatus) and claim 1 (method) of the '906 patent, and the jury found that certain versions of Microsoft's Internet Explorer browser, a fully integrated part of Microsoft's Windows products, infringed both claims.

Only claim 6 is relevant to Microsoft's petition, however, because Eolas sought damages under 35 U.S.C. § 271(f) strictly for infringement of the product claim 6 and not the method claim 1. For purposes of the issue presented in the petition here, the relevant part of claim 6 is its claim to a "**computer program product** comprising: a **computer usable medium** having **computer readable program code** physically embodied therein." (Pet. App. 6a) (emphasis added). In other words, the computer program product comprises (includes) two components: (1) a piece of hardware (the computer usable medium, such as a diskette or hard drive); and (2) the software code physically embodied (installed) on that hardware.

It was undisputed below that Microsoft conceives of, writes, compiles, tests, debugs, and creates a master version of the infringing Windows products in Redmond, Washington. The Windows code is assembled and operational in its

final form in the United States. At that point, Microsoft sends that code on a golden master in pre-install kits to computer makers (Original Equipment Manufacturers, or OEMs). According to Microsoft, the OEM "uses the [pre-install] kit to install the Windows code on a particular computer-useable medium such as a disk, CD, or computer hard drive. . . . The foreign OEM then installs the Windows code, now on a computer-usable medium made by the foreign OEM, into each computer product which is sold abroad." (Ct. App. Appendix A3094-95.)

The district court ruled that, under these facts, Eolas was entitled to damages for Microsoft's export sales of the accused Windows products under § 271(f). (Resp. App. 5a-9a.)[1] On appeal, Microsoft argued that the software code made in the United States and shipped abroad was not a "component[] of the patented invention" under § 271(f). The Federal Circuit rejected Microsoft's argument and affirmed the district court's ruling in this regard, holding that the "statute did not limit section 271(f) to 'machine' components or 'structural or physical' components." (Pet. App. 22a.)

The district court's underlying judgment that Microsoft infringed a valid and enforceable patent, however, did not survive on appeal. Although affirming on the claims

[1] While Microsoft now asserts that these damages account for "more than 64%" of the damages award, that assertion is contradicted by the only evidence on the allocation of domestic and export sales – evidence offered at trial by Eolas. (Pet. 4.) The record evidence establishes that of the 354,124,000 units of Windows sold by Microsoft during the damages period, 203,806,127 were sold in the United States (for which Eolas is entitled to a reasonable royalty under 35 U.S.C. § 271(a)). (Ct. App. Appendix A151663.) The remainder, approximately 43%, were Microsoft's export sales to foreign OEMs covered by § 271(f).

construction and damages issues raised by Microsoft, the Federal Circuit vacated the district court's rulings with respect to invalidity and inequitable conduct and remanded the case for "further proceedings." (Pet. App. 15a-16a, 31a.) At present, therefore, Microsoft is not yet subject to a final judgment of liability for infringing a valid and enforceable patent, let alone for any damages. Further proceedings on the validity and enforceability (inequitable conduct) issues are now pending in the district court.

REASONS FOR DENYING THE PETITION

I. The case is in an interlocutory posture.

The Federal Circuit remanded the case to the Northern District of Illinois for further proceedings on Microsoft's claims of invalidity and unenforceability of the '906 patent. (Pet. App. 16a, 26a.) Microsoft is not currently subject to any enforceable judgment of damages for infringement of a valid enforceable patent. Should Microsoft prevail on its defenses, the damages issue presented by Microsoft would become moot. There would be no liability at all, and hence no damages. The case is thus in a classically interlocutory posture, counseling denial of review for that reason alone. *See, e.g., Bhd. of Locomotive Firemen & Enginemen v. Bangor & Aroostook R.R. Co.*, 389 U.S. 327, 328 (1967); *see also Va. Military Inst. v. United States*, 508 U.S. 946, 946 (1993) (Scalia, J., concurring) ("We generally await final judgment in the lower courts before exercising our certiorari jurisdiction.").

II. There is no intercircuit conflict that would justify review by this Court.

The issue presented is a pure patent-law issue. Microsoft does not allege an intercircuit conflict, reflecting the obvious consequence of the Federal Circuit's exclusive jurisdiction over appeals in cases brought under the patent laws. (*See* Pet. 11) (Microsoft describing the Federal Circuit's "exclusive jurisdiction over the interpretation and application of the patent laws"). There is no disparity of treatment among litigants in different areas of the country that would warrant intervention rather than allowing Congress to decide whether any change in the statute is advisable. Thus, the request for further review rests entirely on assertions of statutory incorrectness and exceptional importance – neither of which, as explained below, is present.

III. The full scope of § 271(f) was not addressed in this case.

Microsoft asks this Court to consider the full scope of § 271(f) in its question presented. That request recognizes that it makes no sense for this Court to consider only parts of § 271(f) if § 271(f) warranted addressing at all. But this case is not the appropriate vehicle to address the full scope of the application of the statute as it relates to software or otherwise.

In the Federal Circuit, Microsoft did not address the full scope of the application of § 271(f) that it now insists is important to a proper understanding of the provision. As it admits, "Microsoft, in this case, focused on whether the golden master, or even the algorithm or instructions for rearranging the computer's circuitry recorded on the

golden master, is a 'component' of the foreign-made computer, or is 'combined' with other parts when the foreign computer is manufactured." (Pet. 8-9 n.2.) Microsoft did not develop arguments about whether, as it now seems to dispute (and thinks important to proper analysis), the software it had OEMs install on hard drives abroad was "supplied ... from the United States." 35 U.S.C. § 271(f)(1).

Not surprisingly, then, the Federal Circuit in its opinion addressed only this narrow issue with respect to § 271(f): "[W]hether software code made in the United States and exported abroad is a 'component[] of a patented invention' under section 271(f)." (Pet. App. 21a.) The narrow scope of the issue raised and decided in this case was subsequently confirmed by the Federal Circuit's later opinions discussing the limited holding in this case. *See AT&T Corp. v. Microsoft Corp.*, 414 F.3d 1366, 1369 (Fed. Cir. 2005) (petition for rehearing pending); *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282, 1322-23 (Fed. Cir. 2005) (petition for rehearing pending). The ruling in this case is thus not a suitable vehicle for reviewing § 271(f) issues even if they otherwise warranted review.

IV. The Federal Circuit's decision is correct.

A. As a matter of statutory construction, the Federal Circuit correctly held that Microsoft's software was a "component" of "the patented invention" here under 35 U.S.C. § 271(f). The patented invention is (as the patent claim *defines* the invention) a product (like a compact disc or hard drive) that contains certain software: "[1] a computer usable medium having [2] computer readable program code physically embodied therein." (Pet. App. 6a.)

"Statutory construction must begin with the language employed by Congress and the assumption that the ordinary meaning of that language accurately expresses the legislative purpose." *Engine Mfrs. Ass'n v. S. Coast Air Quality Mgmt. Dist.*, 541 U.S. 246, 252-53 (2004) (citing WEBSTER'S SECOND NEW INTERNATIONAL DICTIONARY 2455 (1945) to define "standard"). In ordinary usage, the software is a component of the product consisting of the medium with the software code physically embodied on it (or, in Microsoft's language, "installed on" it (Pet. 3, 6).).

Nothing in the ordinary meaning of "component" limits the term to machines or physical structures. WEBSTER'S THIRD NEW INTERNATIONAL DICTIONARY 466 (3d ed. 1986); THE AMERICAN HERITAGE DICTIONARY 387 (3d ed. 1992). And with respect to computer software particularly, it is ordinary usage of patentees, courts, and the PTO to describe software as a "component" of the computers of which it is a part. *See, e.g., Netword, LLC v. Centraal Corp.*, 242 F.3d 1347, 1351 (Fed. Cir. 2001) (patent claim describes "computers" and their "software components"); *Response of Carolina, Inc. v. Leasco Response, Inc.*, 537 F.2d 1307, 1326 (5th Cir. 1976) ("The final component of the computer system is the application software."); U.S. Patent No. 6,629,151 (filed Dec. 8, 1999) (col. 17, ll. 66-col. 18, ll. 1) (Microsoft's patent claiming "a wireless network hardware component connected to a computer and a software component on the computer"); PTO, Manual of Patent Examining Procedure (MPEP) § 2106.01 at 2100-24 (8th ed. 2d rev. 2004) (discussing elements "at least partially comprised of a computer software component"); MPEP § 2106.02 at 2100-25 (discussing "systems which include a computer as well as other hardware and/or software components"); *see also* MPEP § 2106 at 2100-13

("[A] claimed computer-readable medium encoded with a data structure defines structural and functional interrelationships between the data structure and the computer software and hardware components which permit the data structure's functionality to be realized, and is thus statutory.").

Thus, when the software on Microsoft's golden master is installed on hardware abroad, a "combination" of "components" occurs within the meaning of § 271(f). (Pet. App. 23a); *see also* MPEP § 2106 at 2100-14 ("[A] hardware and software combination . . . defines a statutory product.") (citations omitted). The term "combine" requires no physical joining of tangible components. THE AMERICAN HERITAGE DICTIONARY 377 (3d ed. 1992); WEBSTER'S THIRD NEW INTERNATIONAL DICTIONARY 452 (3d ed. 1986).

B. Microsoft argues otherwise largely by mistakenly treating the software here as indistinguishable from (as no more than) any "design information" or "detailed set of instructions" on how to build the patented invention. (Pet. 4, 18.)[3] That is wrong. The computer readable program code (the software on Microsoft's golden master) is *not a set of instructions to people* on how to build the patented invention; rather, the code *remains on the "computer usable medium" on which it is installed as "instructions" (using Microsoft's locution) for that hardware to continue using*. The computer continues to "use" the software it

[3] In its petition, Microsoft states that "in neither the *AT&T* case nor this case did the Federal Circuit dispute that software code is a 'detailed set of instructions.'" (Pet. 9) (citing Pet. App. 22a). That statement is misleading. The Federal Circuit actually stated that "[t]his part of the software code is *much more than* a prototype, mold, *or detailed set of instructions*." (Pet. App. 22a) (emphasis added).

contains, making the computer usable in a way that is "new and useful." (Pet. App. 21a); *see In re Bernhart*, 417 F.2d 1395, 1399-1400 (C.C.P.A. 1969). And the software can be separated or removed from the other component of the invention – the hardware – without destroying the latter.

"Design information" or "design instructions," in Microsoft's generic sense of instructions to people on how to build the infringing product, is very different.[3] Microsoft's analogy to the design of a tire (Pet. 5-6) or design of a car (Pet. 20) confirms the distinction between software and Microsoft's definition of "design instructions." The "design instructions" to people on how to make a tire mold do not remain with the tire after it is fabricated; the "design instructions" are exhausted vis-à-vis that tire once the tire is made. Nor is the mere shape (tread) of the tire separable from or a "component" of the tire. Software, on the other hand, when physically embodied on a computer usable medium after being installed, remains on the hardware *in order to be read and used* in the use of that hardware and can be separated from that hardware by uninstalling the software. For this reason, an inventor of a software product can seek the protection of a utility patent, as the '906 inventors did. *See In re Alappat*, 33 F.3d 1526, 1537 (Fed. Cir. 1994) (en banc); *In re Bernhart*, 417 F.2d at 1396. A designer of a tire tread or car, on the other hand, obtains protection for that design through a design patent. 35 U.S.C. § 171; *see, e.g.*, U.S. Patent No.

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[3] Microsoft itself understands the distinction between information and software. *Compare* MICROSOFT COMPUTER DICTIONARY 233 (4th ed. 1999) (defining "information") *with* MICROSOFT COMPUTER DICTIONARY, *supra*, at 415 (defining "software").

D508,438 (filed Mar. 22, 2004) (automobile); U.S. Patent No. D508,891 (filed Dec. 12, 2003) (tire tread). Thus, Microsoft is wrong when it challenges § 271(f)'s application to software here by treating it as no different from any design information. (As noted below, the falsity of that equation also answers Microsoft's inflation of the consequences of the ruling in this case.)

In short, Microsoft cannot show error in the Federal Circuit's ruling as to the software here by saying that a "design" of a tire or car is not naturally described as a "component" of the tire or car. The software at issue here, once embodied on a CD (or other computer usable medium), is in plain terms a "component" of the computer program product that is the "patented invention" of the '906 patent. That is the natural meaning of § 271(f)'s language. No principle of law overrides a court's duty to give the natural meaning to a statute that was indisputably intended to reach some activities beyond United States borders. (*Contra* Pet. 11-12.) Microsoft's reliance on "extraterritorial effect" principles is therefore misplaced.

C. The Federal Circuit's result makes perfect sense of § 271(f). While the statutory language may have been enacted in response to *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972), which happened to involve physical-structure components (*see* Pet. 13), nothing whatever suggests that the congressional response was limited to such physical-structure components. Rather, the response reached any "components" whose natural meaning embraces software physically embodied in a medium that, when it contains the software, is the "patented invention."

It would be strange if such software were *not* covered by § 271(f). For every copy of the Windows software that is installed abroad, virtually the entire value was created in the United States. The design and careful writing of software may cost vast sums of money. The making of copies thereafter is trivial in cost. The core policy of § 271(f) captures this case: the United States is the locale of all but the final, economically insignificant work in completing the infringing products.

Furthermore, § 271(f) requires that the defendant *intends* its domestic work to be combined into the final infringing product. *See* § 271(f)(1) ("[I]n such manner as to actively induce the combination of such components."); § 271(f)(2) ("[I]ntending that such component will be combined."). That is undeniably Microsoft's intent for its golden master, and Microsoft has not contended otherwise. In shipping the golden master abroad precisely in order to have the software it contains installed on multiple computer usable media, Microsoft is doing just what § 271(f) was intended to cover.

Indeed, Microsoft's arguments that the software on the golden master is nothing but "design information" and that the copies are created upon installation abroad are undermined by its own prior successful argument in another context. In *Microsoft Corp. v. Comm'n of Internal Revenue*, 311 F.3d 1178 (9th Cir. 2002), Microsoft argued that it was entitled to tax deductions under 26 U.S.C. § 927(a)(2)(B) for all foreign sales of software replicated from Microsoft's golden master abroad, claiming that such copies were "export property" under the statute. The Ninth Circuit, while recognizing that purely "intangible intellectual property" was not "export property," *id.* at 1185, agreed with Microsoft that all copies created from the

software embodied on the exported golden master were export property, thereby providing Microsoft with over $31 million in claimed deductions for 1990 and 1991, *id.* at 1182, 1189.

D. Contrary to Microsoft's intimations (Pet. 15 & n.4), the Federal Circuit's decision about software in a computer-apparatus patent – reiterated in *AT&T*, 414 F.3d at 1369, which also decided the "supplied . . . from the United States" issue under § 271(f) – is perfectly consistent with other Federal Circuit decisions. *Pellegrini v. Analog Devices, Inc.*, 375 F.3d 1113 (Fed. Cir. 2004), *cert. denied*, 125 S. Ct. 642 (2004), simply did not involve software (supplied from the United States) installed on a computer (abroad). The "instructions" supplied from the United States in *Pellegrini* were nothing but instructions to people on how to fabricate integrated circuit chips abroad entirely from components supplied from outside the United States. (*See* Pet. App. 25a.) The components of the patented invention in *Pellegrini* were manufactured entirely outside the United States pursuant to those instructions to people and never shipped to or from the United States. There was no question about installing American-made software on hardware abroad. *Id.* at 1115. Indeed, the information at issue in *Pellegrini* is not patentable subject matter under 35 U.S.C. § 101, while software combined with hardware is. *See Diamond v. Diehr*, 450 U.S. 175, 185-89 (1981); *In re Alappat*, 33 F.3d at 1545. The *Pellegrini* holding as to mere instructions, of course, provides the limitations on § 271(f)'s breadth that Microsoft claims are necessary.

Nor is the decision below inconsistent with decisions finding § 271(f) inapplicable to patented *methods*. (*See* Pet. 15 n.4.) For example, in *NTP, Inc.*, the Federal Circuit

explained that supplying certain physical devices was not supplying "'component' steps for combination into [patentee's] patented methods." 418 F.3d at 1322-23. The method-patent issue, of course, was not raised in this case since Eolas did not seek § 271(f) damages for infringement of method claim 1 of the '906 patent but sought such damages only as to the *apparatus* claim 6.

Thus, in *Pellegrini* and elsewhere, the Federal Circuit has articulated limits on § 271(f)'s reach that follow directly from the statute's language. Those limits are not implicated by the software issue in this case, for which the statute's language provides the very answer the Federal Circuit gave. The Federal Circuit has been entirely consistent. And the limits on § 271(f) that the court has articulated effectively answer the sky-is-falling scenarios hypothesized by Microsoft.

V. Microsoft grossly overstates the "economic consequences" and "extraterritorial reach" of the application of § 271(f).

This case does not involve an exceptionally important issue that requires this Court's intervention. Microsoft's forewarnings of "economic consequences" and "extraterritorial reach" rest on its refusal to recognize the critical distinction, already discussed, between the software-in-apparatus issue decided in this case and general design-instructions or method-patent issues. Once that distinction is recognized, Microsoft's assertion of extraordinary consequences collapses. The Federal Circuit simply has not extended § 271(f) to mere design instructions or method patents.

Nor does the Federal Circuit's decision reach a case where "all the parts of the allegedly infringing products were of foreign origin." (Pet. 18.) The software that makes the computers abroad valuable and "new and useful" (Pet. App. 21a) was created domestically: that "part" was *not* of foreign origin. Microsoft conceives of, writes, compiles, tests, debugs, and creates a master version of the infringing Windows products in Redmond, Washington. And Microsoft fully intends the combination of that software with the computer usable medium abroad.

Microsoft may, of course, be exposed (if liability is ultimately found) to a "massive damages award" (Pet. 18), but only because software in a computer is patentable and Microsoft sells infringing software on a large scale. Microsoft's revenue is not limited by the number of golden master disks that it sends abroad. It earns revenue based on the ultimate number of new infringing units the OEMs create, at Microsoft's insistence, by installing the software made in the United States onto new pieces of hardware. Liability for infringement under § 271(f), far from being limitless, is tied directly to the magnitude of Microsoft's fully intended revenue-generating infringing activity.

VI. Microsoft's argument with respect to the United States's treaty obligations has been waived and is without merit.

Microsoft's several references to the United States's treaty obligations also provide no basis for certiorari. Microsoft did not raise those arguments below, and such contentions are therefore waived. *See Hoover v. Ronwin*, 466 U.S. 558, 575 n.25 (1984).

In any event, despite its extensive discussion of the United States's foreign obligations, Microsoft points to no treaty provision or obligation that is contravened by the Federal Circuit's ruling. Nor does Microsoft identify any *foreign* patent law taking a view contrary to the Federal Circuit's view of American law here. It resorts instead to stating that the Federal Circuit's decision "raises serious concerns." (Pet. 22.) But any concerns that the Trade-Related Aspects of Intellectual Property Rights Agreement ("TRIPS Agreement") may have raised were addressed by Congress in 1994 when "Congress amended 271(a), (c), (e), and (f), to include 'offers to sell' and 'importation' of an invention, and added 271(i) in order to meet our obligations under the TRIPS Agreement to harmonize United States intellectual property laws with international patent laws." Timothy R. Holbrook, *Liability for the "Threat of a Sale": Assessing Patent Infringement for Offering to Sell an Invention and Implications for the On-Sale Patentability Bar and Other Forms of Infringement*, 43 SANTA CLARA L. REV. 751, 763 (2003).

The TRIPS Agreement explicitly provides that "Members may, but shall not be obliged to, *implement in their law more extensive protection* than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement." Trade-Related Aspects of Intellectual Property Rights, Marrakesh Agreement Establishing the World Trade Organization, Part I, arts. 1.1, 27, Legal Instruments – Results of the Uruguay Round, Apr. 15, 1994, 33 I.L.M. 1125, 1198, 1208 (1994) (emphasis added). To the extent that Microsoft quotes the TRIPS Agreement and the *Paris Convention* (Pet. 12 & n.3, 22 & n.7), it quotes provisions applicable to *method* (process) patents, and even they positively suggest

support for certain kinds of "extraterritorial" patent protection.

* * *

In sum, there is no basis for review of the Federal Circuit's ruling in this case. The ruling is interlocutory. There is no intercircuit conflict. Microsoft presented, and the Federal Circuit addressed, only a slice of the relevant statutory provision. The ruling is correct, based on the text and policy of the statute, and consistent with other Federal Circuit rulings. And the ruling is distinctly limited in consequence.

Microsoft is seeking to limit its patent-damages liability for domestic conduct (software creation) to something far less than the value obtained for that conduct, even when it infringes another's patent. If Microsoft can persuade Congress now to "[l]imit[] § 271(f) to the supply of physical parts of a foreign-assembled product" (Pet. 20), Congress can presumably narrow the sweep of its patent-damages provisions. "Resolution of the pros and cons of whether a statute should sweep broadly or narrowly is for Congress." *United States v. Rodgers*, 466 U.S. 475, 484 (1984). At present, though, neither the text nor policy of the statute supports Microsoft's proposed limit. Thus, there is no reason to review the Federal Circuit's decision so holding.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted,

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September 30, 2005

RESPONDENTS' APPENDIX

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

EOLAS TECHNOLOGIES INCORPORATED,

and

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA,

Plaintiffs,

v.

MICROSOFT CORPORATION,

Defendant.

No. 99 C 0626
Judge James B. Zagel

MEMORANDUM OPINION AND ORDER

CONSOLIDATED RULINGS ON POST-TRIAL MOTIONS

Post Trial Motions of Microsoft

1. Judgment As a Matter of Law and For a New Trial

This motion rehearses a series of arguments that failed the first time around. The papers before me are, for the greatest part, a re-briefing of what has already been thoroughly argued and, in my view, correctly decided. The primary purpose of this motion is to avoid claims of waiver if the judgment is appealed, and it will be another court

that decides whether this purpose has been achieved.[1] The secondary purpose of this motion is to cite decisions not available at the time of the original claim construction with the hope that a change in law means a change in result.

That being said, I must review this motion and apply the widely held standards for JMOL and a new trial. JMOL is appropriate "where there can be but one conclusion from the evidence." *McRoberts Software, Inc. v. Media 100, Inc.*, 329 F.3d 557, 564 (7th Cir. 2003) (citation omitted). When reviewing a motion for JMOL, I must consider "whether the evidence presented, combined with all reasonable inferences permissibly drawn therefrom, is sufficient to support the verdict when viewed in the light most favorable to the party against whom the motion is directed." *Goodwin v. MTD Prods.*, 232 F.3d 600, 606 (7th Cir. 2000) (citations omitted). A new trial is appropriate where the verdict is "against the manifest weight of the evidence." *Billy-Bob Teeth, v. Novelty, Inc.* 329 F.3d 586,

[1] There is some protest in Eolas's response that Microsoft is arguing points that are waived. Eolas asserts that Microsoft abandoned its contention that the executable application had to be present on the client workstation before the browser parses the embed text format, that Microsoft failed to object to aspects of the instruction covering display of the object and that Microsoft waived its objection to instructions about "heavy lifting" referring to the use of resources outside the browser. Eolas may be correct, but waiver of objections to instructions that correctly embody the rulings on claim construction may not always serve as a waiver of appellate objections to the claim construction itself, so long as those objections were clearly stated during the claim construction hearing. I say "may be correct" because I have not reached a decision on the question of waiver. I have relied on the alternative ground that my rulings are correct. A reviewing court is, of course, free to decide the question of waiver and rely on that should it see fit to do so.

591 (7th Cir. 2003). I may not overturn a jury's verdict so long as it has a "reasonable basis in the record." *Westchester Fire Ins. Co. v. General Star Indem. Co.*, 183 F.3d 578, 582 (7th Cir. 1999).

As is demonstrated by the standards above, our judicial practice requires a high level of deference to the findings of a jury. These standards place a heavy burden on moving parties, like Microsoft. Despite Microsoft's best arguments, I adhere to my prior evidentiary rulings and my decisions excluding certain defenses from the case submitted to the jury, and I find there has been no material change in the law that would support another outcome in this case.

Finally, in asking for a new trial, Microsoft argues that there were errors in jury instructions concerning inducement of infringement. Given the whole set of instructions, I can not see how any jury could find Microsoft liable without first determining that Microsoft actively induced infringement. Accordingly, I do not perceive any error in the jury instructions.

2. New Trial with Respect to Damages or, in the Alternative, for Remittitur

The amount of damages based on a reasonable royalty is an issue of fact, *Micro Chem., Inc. v. Lextron, Inc.*, 317 F.3d 1387, 1394 (Fed. Cir. 2003), over which the jury has a great amount of discretion, *Liu v. Price Waterhouse LLP*, 302 F.3d 749, 756 (7th Cir. 2002). The damages awarded by this jury are, in absolute terms, very large. However, one could argue that, in relative terms, that $1.47 is a relatively modest portion of a $60.00 selling price but relative terms are relative terms. I am unwilling to say that roughly 2.5% of $60.00 is either modest or immodest.

In my view, the amount is not so huge in relative or absolute terms that the law will not countenance it, so I do not base any part of my decision on the size of the award *per se*. *See State Farm Mut. Auto. Ins. Co., v. Campbell*, 123 S. Ct. 1513 (U.S. 2003).

Microsoft argues against the validity of any damage calculation wherein the value of a complex, multi-functional product is the base from which a percentage is extracted – the percentage being the commercial value of a single infringing functionality. Microsoft has an institutional concern over such calculations because, as is widely known, it bundles together all of its Windows functionality as seamlessly as it can. It argues that this bundling is good engineering; others argue that it has a more nefarious purpose. Whatever the truth, the bundling makes it very difficult for either party to assess the value of each individual component.[2] Since Microsoft has created this difficulty for itself, it must bear the legal risks attendant to its way of business. At times, Microsoft's arguments seemed to border on proposing that an infringer could wrap together, in a single product, 150 technological innovations without having to any (sic) pay a cent in royalties so long as each innovation contributed only a small part of the product's overall value and was not itself a standalone product. But, few would be willing to adopt this position explicitly.

Microsoft seems to propose, in the alternative, that even if it must bear the consequences of its bundling policy, a jury should not be invited to determine the

[2] Even Microsoft's own expert had difficulty speaking in explicit terms about the correct measure of damages.

percentage of Windows or Internet Explorer's value that is attributable to Eolas's invention. In short, Microsoft argues that, for damages to be appropriate, the accused technology must contribute in some meaningful way to consumer demand for Windows or Internet Explorer. Here, Microsoft claims Eolas has failed to show that its invention made a meaningful contribution and, thus, is not entitled to damages. Microsoft's experts made this point by arguing that automatic invocation of an application saved only a mouse click or two and could not be regarded as a meaningful addition to Windows. Certainly, this argument has some force. The jury may have accepted this argument as it did assess a royalty rate far below the one asked for by Eolas. In the end, even Microsoft's own experts did not really declare that Eolas's invention was of no value to Windows or Internet Explorer. At trial, sufficient evidence was presented from which the jury could infer that Microsoft itself saw significant value in the functionality at issue.

Microsoft's final arguments are that the jury's verdict makes no sense in light of the royalty paid to Spyglass for a license to use an entire browser technology, that the royalty far exceeds the amount of money Microsoft invests in its annual research budget, that Microsoft could have achieved the same functionality in a different way and that Eolas could not sell the technology on its own. These arguments too are not without force but have already been considered and rejected by the jury.

While I am not entirely comfortable with the large size of the judgment, it is not my comfort which matters. *See Oiness v. Walgreen Co.* 88 F.3d 1025 (Fed. Cir. 1996). Both sides presented complex chains of evidence that could have supported a significantly higher or significantly

lower value than the one that appeared on the verdict. Exactitude is difficult in all damage cases, and it was made far more difficul (sic) here by the way Microsoft sells Windows. However, it was not outside the ability of a jury to make a rational judgment. The jury, to whom the decision was submitted, conscientiously reached a verdict as to the running royalty that was within the realm of reason.

3. Motion to Exclude Foreign Sales

Microsoft has moved for judgment as a matter of law of noninfringement with respect to products made and sold outside the United States and argues that, in light of new Federal Circuit precedent, I must reconsider and reverse my earlier decision in *Eolas Techs. Inc. v. Microsoft Corp.*, No. 99 C 626, 2003 U.S. Dist. LEXIS 13482 (N.D. Ill. Aug. 1, 2003). In that decision, I found infringement damages could be awarded, pursuant to 35 U.S.C. Section 271, for units of Windows with Internet Explorer produced and sold outside the United States. The relevant portions of that opinion are reproduced below.

> Section 271(f) prohibits manufacturing all or a substantial part of the significant components of a patented invention here and then having those components assembled abroad. This law was Congress's disapproval of the ruling of *Deepsouth Packing*.
>
> The intellectual property at issue in this case, namely the Windows source code, is contained on a computer disk, known as the "golden master." Microsoft provides this disk to foreign Original Equipment Manufacturers ("OEMs") pursuant to intellectual property licensing agreements

for their use in making and selling abroad computer products containing Windows. According to Microsoft, new units of Windows code are created abroad when the foreign OEMs, for each unit, replicate the Windows code in its manufacturing facility using the single "golden master" and installs these new units of replicated code on a computer useable medium, such as a computer disk or hard drive, which is supplied by the foreign OEM. Microsoft argues that this "golden master" is not a component of the foreign sales products within the meaning of Section 271(f).

The closest cases are *W.R. Grace & Co-Conn v. Intercat, Inc.*, 60 F. Supp. 2d 316, 319-21 (D. Del. 1999) and *Lubrizol Corp. v. Exxon Corp.*, 696 F. Supp. 302, 325 (N.D. Ohio 1988). In these cases the defendants sent chemical products abroad that were combined as supplied with other compounds into compositions that would have infringed had the combination occurred here. Those judges found that there was liability under Section 271(f). Only one of these opinions offered a rationale but both relied on what they, and I, agree is the plain language of the statute.

Microsoft argues that the "golden master" is distinguishable from the chemical products in these cases. It asserts that the disk is analogous to the formula for those chemicals sent abroad, not the chemicals themselves and therefore, the disk is not a component of the allegedly infringing product.

The "golden master" is like a chemical formula in that it is a series of directions (commands) written down so that it can be used again and again. If followed, the formula produces a result which is desired by its user or purchaser.

The "golden master" is unlike a chemical formula because its contents are an operating element of the process which produces the result which is desired by a user or purchaser (like Paranox 300 and Paranox 600 when added to other ingredients made a better oil additive in Lubrizol).

A chemical formula can be memorized (as many complex recipes are) and discarded. The source code has to be installed, never to be discarded.

A philosophical argument can be made that installation of the source code is akin to memorizing it. But I think the recipe memory, of which we speak (in ordinary language) is not what we mean when we speak of computer memory.

The machine does not 'remember' – it holds code and, unlike the human, that is all it does. The result desired by the user of the compound product of the programmable machine (a computer) and Windows code is made from code and hardware together. That which invokes the operation to secure a result (i.e., my finger pushing buttons) and the devices connected to the buttons are, in the important sense here, external to the basic product. So too are the devices which input data. That which displays the machine's output is external in this way.

The devices which start the machine, input data, or display output are essential to the usefulness of the machine to users. Yet if the laptop on which I am writing this opinion had a power button stuck in the on position, a keyboard covered by a solid locked plate, and the screen was dead, but "my laptop" is still there. What is there

is the internal hardware and the source code which operates, provides utilities, can browse and execute applications.

This analysis is not metaphysical. It is an analysis of language. It is appropriate because the goal is to find the meaning of ordinary language as it is used by lawyers and judges when deciding whether something is made and, if so, where it is made. Where code is installed on a disk or a hard drive to be put into a programmable machine, I conclude that source code in a computer product like my laptop is, in law, the legal equivalent of a piece of computer hardware and not the legal equivalent of a chemical formula.

In a legal sense, a source code is a made part of a computer product. In contrast, a chemical formula is discovered rather than made, and is not part of any product.

I will not bar plaintiffs from seeking damages for units of Windows with Internet Explorer which are produced and sold outside this country.

Microsoft argues that this decision has been effectively overruled by *Bayer AG v. Housey Pharms., Inc.*, 340 F.3d 1367 (Fed. Cir. 2003). In *Bayer*, the Federal Circuit found that the process patent at issue did not fall within the parameters of 35 U.S.C. Section 271(g) because it yielded only intangible information and not a physical product. Microsoft claims that the same physical requirement should apply in this case. At the heart of Microsoft's argument is its assertion that the source code contained on the "golden master" is merely intangible information. For the reasons laid out in my August 1, 2003 opinion, I

disagree. The source code contained on the "golden master" is not intangible information but is instead a real and substantial part of the final product. Because I find that the source code present on the "golden master" is not intangible information, *Bayer* does not affect my decision.

Microsoft also argues that no combination of elements exists that is sufficient to satisfy Section 271(f). For the reasons clearly laid out in my August 1, 2003 opinion, I disagree and find the combination requirement has been met.

4. Motion to Stay Entry of Judgment and *All* Further Proceedings

A Deputy Commissioner of the Patent and Trademark Office has, pursuant to his authority, ordered a reexamination of the '906 patent. The PTO rarely exercises this power, and when it does, it is usually not good news for the patent holder because a high percentage of such reexaminations end in cancellation or amendment. Therefore, Microsoft argues that I ought not to enter judgment until we hear what the PTO has to say. If the '906 patent is cancelled or gutted, the costs of proceeding with appeal are avoided. But, these costs are trivial compared to what has already been spent. The real problem for Microsoft is the decision about what to do with its products before all is said and done by all who can say and do.

If Microsoft chooses to change its products, many third parties will have to change their products so that Microsoft users can gain access. Microsoft itself will incur

large costs to make the change.[3] Additionally, since virtually no new software works right the first time, Microsoft users will likely pay a price as well. If the judgment here does not hold up, all this considerable cost and inconvenience will be for naught.

However, Microsoft does have another less costly alternative to making immediate changes to Windows and Internet Explorer.[4] It can stand fast on its positions of non-infringement and invalidity and minimal damages. What Microsoft risks is payment of royalties if the judgment here stands. Because of its strong financial condition, there is no question that Microsoft will be able to pay those royalties and, thereby, avoid the uncompensated third party costs and inconveniences associated with an unnecessary change.

Staying proceedings until the PTO acts on the reexamination, however, would impose more significant costs on Eolas. It is an entity whose only real asset is the patent. If its patent is finally found to be valid and infringed, it will have waited more than half a decade to be paid. Furthermore, no one has represented that the reexamination would necessarily be a short process.[5]

---

[3] It is true that Microsoft sings a little different tune here than it did at trial where it argued that the patented invention even if valid and infringed was not a big deal. However, it lost that point and is now entitled to argue that a change in the technology is a big deal as Eolas has always said it was.

[4] It has this alternative because, for reasons stated elsewhere in this ruling, I stay the effect of injunctive relief until appeal issues are resolved and for a period of weeks thereafter.

[5] One possible reason to believe that the reexamination would not take long is that, according to the Deputy Commissioner for Patent Examination policy, the reexamination was triggered by a "substantial

(Continued on following page)

Because of the '906 patent's high profile, I doubt that any prudent re-examiner would issue an opinion without an extended and thorough process, which as always will take time. The Deputy Commissioner for Patent Examination Policy signed an order for the reexamination in which he simply said that reexamination was ordered because "in view of the admitted prior art of the '906 patent and the teachings of Berners-Lee, Raggett I, and Raggett II, a substantial new question of patentability is raised." Although I am familiar with both the Raggett references, I still could not predict the time needed for reexamination, particularly since the PTO examines prior art unconstrained by certain presumptions about validity which bind judges like me. In the end, I can only opine that the PTO will not be quick about this and will need some significant measure of time.

There are cases in which courts have stayed ongoing proceedings pending reexamination. However, there is little support, if any, for staying entry of judgment when reexamination is ordered well into the briefing period for post-trial motions. *See Viskase Corp. v. American Nat'l Can Co.*, 261 F.3d 1316 (Fed. Cir. 2001). The reexamination is insufficient to warrant a stay on the entry of judgment and delay of the appeal at this time.

---

outcry" from the Internet community. The most prominent among the creators of the Web, Sir Timothy Berners- Lee (sic), expressed the view that the PTO had missed clear prior art. Judging from the record before me, it is safe to say that some of the outcry arises from the view of a significant portion of Web experts, including Berners-Lee, that royalties ought not to be paid patented Web innovations. This contingent believes instead that Web invention is for the good of humanity and not the inventor. If this is the true reason for the reexamination, then I doubt the reexamination will take very long.

Post Trial Motions of Eolas

1. Motion for Injunction

Eolas seeks to enjoin Microsoft from continuing to use the infringing product or its colorable variations. Ordinarily, a patent holder is entitled to an injunction against unauthorized use of its invention.[6] Microsoft does not argue than (sic) an injunction is inappropriate but instead argues that any injunction must be carefully tailored and, in any event, ought to be stayed. The thrust of Microsoft's argument is that its product is in such widespread use that a broad injunction would impose unacceptably high costs on the product's users. These costs will include not only dollars but also other irreparable injuries such as loss of time and interruption of work. Many quite old infringing products are still in wide use today (including the one installed on my computer until fairly recently). Moreover, Web based business will be affected because Web pages may have to be redesigned. The redesign may, in some cases, require upgrades to millions of older Windows systems.

Injunctive relief is equitable and, in this case, where both granting and denying of the injunction will inflict irreparable injury, I must look to the balance of harms between these two parties. To balance harms is to assess the consequences of error and assess who is hurt worse if the court wrongly decides the question of injunction.

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[6] Compulsory licensing is possible, but it is not close to first on the list of remedies. Not only is there the presumptive irreparable harm, there is the possibility that Eolas will be precluded from using or licensing its technology to others because of Microsoft's dominance of the browser market. Moreover, Microsoft has said that it can design around the patent and this statement should be taken at its face value against Microsoft even if Eolas may doubt its truth.

Foodcomm Int'l v. Barry, 328 F.3d 300, 305 (7th Cir. 2003). If I wrongly deny the injunction, Eolas loses some ability to exploit its invention for the next year or two. Since this will coincide with the time period for the appeals and reexamination, I think that Eolas's prospects can, at best, be considered poor. The running royalty Eolas will receive should come quite close to making it whole. This is far less than what Microsoft stands to lose. At a minimum, Microsoft will incur the cost of designing around the patent, testing and manufacturing of the new product, integrating the new product into the existing web culture and losing the ability to return to its currently proven technology if the patent ultimately fails.

The cost to users of the infringing product should not, in my view, be put into the balance of harms analysis but rather should be used to determine whether the public interest is served by the issuance of the injunction. An injunction (as opposed to colossal damages) with respect to a product so widely used and deeply integrated into society, as is this one, presents a policy problem. This may be one of those matters (like widespread toxic torts and giant securities frauds) for which we need a maxim like De Maximus Non Curat Lex. The original De Minimus Curat Lex expressed the view that the law should not address trivial matters presumably because the costs, tangible and intangible, exceed the benefits. The new maxim is founded on the recognition that courts may not be able to answer the questions posed by these problematic policy cases. But, these policy problems are not for District Judges to decide. The law seems clear that inventors have a right (outweighed only by public health and safety needs and exercise of the taking power of government) to keep their invention to themselves, to share it with whom they

choose or to completely preclude its use. *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538 (Fed. Cir. 1995). It is the loss of these rights that cause the irreparable injury that can be vindicated only by in [sic] injunction, not by damages.

Accordingly, Eolas is entitled to an injunction even if the balance of harms would, in a non-patent case, counsel against injunction and even if the public interest (excluding health and safety) would weigh against it. However, to minimize the harm that a wrongly decided injunction would inflict on Microsoft and on the public, the scope of the injunction should be limited. *See Atlas Powder Co. v. Ireco Chem.*, 773 F.2d 1230, 1233 (Fed. Cir. 1985) (While monetary relief is often the sole remedy for past infringement, it does not follow that a money award is also the sole remedy against future infringement). The injunction should be carefully crafted to preclude infringement only with respect to future conduct by Microsoft; infringements in the past are to be remedied by damages. The distinction is important here because the infringement occurs many times each day as Windows users display interactive objects embedded in Web pages. These infringements, in my view, belong in the category of past infringements because the device used to infringe was made and sold long before the judgment in this case. The future infringement is limited to new versions of Microsoft's Windows operating system or any major service pack of any existing versions of the Windows operating system containing Internet Explorer that Microsoft releases to manufacturing.[7]

---

[7] These are the words that Microsoft suggests.

Eolas objects on the grounds that this injunction should not be limited to the specific ways in which Microsoft distributes the accused products but instead should reflect the traditional language which bars "making, using, selling and offering to sell." I do not read the Microsoft language so narrowly. I read "manufacturing" to mean "any entity, including Microsoft itself or its subsidiaries, which manufactures products containing or using the systems released to it by Microsoft." I read the word release to include "sell or offer for sale or use." I regard injunctions written to cover a specific way of doing business to be far more easily enforceable than general form language proposed by Eolas. So Eolas need not fear Microsoft might change its methods of distribution to avoid the force of the injunction, I have included language that will oblige Microsoft to notify Eolas and the Court of any change in its practice that might arguably affect the application of the injunction.

I also agree with Microsoft that a lead time of 17 weeks to devise and release newer non-infringing technology is justified by policy. The line between past and future infringements should not invariably fall on the day that judgment is entered. Given the circumstances of this case, I think infringements occurring within 17 weeks of the effective date of the injunction are reasonable and best treated as past infringements. Finally, given the inability of Eolas to post bond, I stay the effective date of the injunction pending resolution or abandonment of appeal or a decision not to appeal. After the effective date of the injunction, motions to modify the injunction may be made in the normal course for good cause.

2. Motion for a Determination of Prejudgment Interest

Ordinarily, the winner in a case like this gets prejudgment interest. *See General Motors Corp. v. Devex Corp.*, 461 U.S. 648 (1983). What is disputed here is the amount of (not the right to) prejudgment interest to which Eolas is entitled. Eolas wants the prime rate of interest compounded quarterly from the date of infringement, which adds up to about $1.0 million.[8] Some courts, like the Seventh Circuit, use the prime rate as the default standard, *Gorenstein Enters. v. Quality Care-USA., Inc.*, 874 F.2d 431 (7th Cir. 1989), however, the Federal Circuit does not. *Studiengesellschaft Kohle v. Dart Indus.*, 862 F.2d 1564 (Fed. Cir. 1988).

Microsoft asserts, and I agree, that the rate and the method of compounding is left to my sound discretion. The argument against using the prime rate is that the prime rate is designed to compensate for financial risk (albeit the low risk of prime borrowers) associated with the possibility of non-payment by borrowers. Given Microsoft's strong financial position, it presents a risk that is much more like

[8] This argument has some force, but it could be wrong if, say in the course of its operations (which might include the cost of this lawsuit), Eolas actually did borrow money at the prime rate and paid that interest. Then prime rate interest would clearly be compensatory. However, Eolas, so far as the record shows, did not borrow and this justification for a prime rate is lost. *See Laitram Corp. v. NEC Corp.*, 115 F.3d 947 (Fed. Cir. 1997). *Laitram* does not require evidence of borrowing to use the prime rate. It simply recognizes that absent borrowing, there is one less reason to use the prime rate.

that of federal governments making the Treasury Bill rate more appropriate.[9]

Microsoft also challenges the assumption that it would have been paid its royalties on the first day of the quarter. Since is [sic] appears to me that royalty agreements in this business usually provide for payments within a reasonable period after the close of the quarter, I must agree with Microsoft. In fact, Eolas itself has entered into agreements providing for royalty payments sixty days after the close of the quarter. Using the Treasury Bill rate and setting the royalty payment date to a reasonable period after the close of the quarter, I find that the prejudgment interest owed comes to about $45.3 million (See Exhibit E of Creighton Hoffman's Supplemental and Second Supplemental Declarations). In effect, this compensates Eolas for receive [sic] royalty payments it would have received four times a year and would have invest [sic] in a risk-free instrument. This might not have happened in the real world, but prejudgment interest calculations are made on the assumption of some logical practice in light of the investment options available when the money arrives.[10]

3. Motion for An Equitable Accounting

I grant the motion and will require an accounting after any appeal in this case is terminated. At that time, I will order a hearing to determine the number of units of

[9] Eolas's own evidence about the financial status of Microsoft establishes the absence of any risk of default greater than that which attaches to treasury bills.

[10] These assumptions can be overridden by showing some established money management practices of the plaintiff enterprise but there was no such showing.

infringing products sold between October 1, 2001 and the final judgment, the reasonable royalty rate and the prejudgment interest, if any. I will consider at the time of the hearing certain specific defenses and objections that Microsoft has to the period October 1, 2001 through May 31, 2003. Microsoft objected early on to Eolas's proposal that its damage presentation at trial end with the period prior to October 1, 2001. Microsoft said that by doing so, Eolas deprived Microsoft of its right to trial by jury. Microsoft also objects on the grounds that the form and nature of the infringement verdict would render post-trial accounting impermissibly speculative. Eolas has responses to both objections. I decline to rule upon them now and reserve decision until the time for accounting is fixed. Prejudgment interest, if any, will be calculated in the same manner it was calculated for the present damage award.

For the reasons given herein, Microsoft's motions for Judgment As a Matter of Law and for a New Trial, for a New Trial with Respect to Damages or, in the Alternative, for Remittitur, to Exclude Foreign Sales and to Stay Entry of Judgment and All Further Proceedings are DENIED. Eolas's Motion for Injunctions is GRANTED to the extent consistent with this opinion and, in lieu of a bond, is STAYED pending appeal. Eolas's Motion for Prejudgment Interest is GRANTED. Microsoft is ORDERED to pay Prejudgment Interest in the amount (sic) $45,332,588 is awarded in accordance with the method shown in Exhibit E of Creighton. (sic) Hoffman's Supplemental and Second Supplemental Declarations. Eolas's Motion for an Equitable Accounting is GRANTED and will be conducted once the appeals process is completed.

ENTER:

/s/ James B. Zagel
James B. Zagel
United States District
Judge

DATE: 14 January 2004

No. 05-288

In The

Supreme Court of the United States

MICROSOFT CORPORATION,

Petitioner,

v.

EOLAS TECHNOLOGIES INCORPORATED AND THE REGENTS OF THE UNIVERSITY OF CALIFORNIA,

Respondents.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

SUPPLEMENTAL BRIEF OF RESPONDENTS

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SUPPLEMENTAL BRIEF OF RESPONDENTS

In our brief in opposition, at page 13, we stated that the Federal Circuit has not extended Section 271(f) to method patents. That was true when the brief was filed, but the fact has now changed. On Monday, October 3, the Federal Circuit in *Union Carbide Chems. & Plastics Tech. Corp. v. Shell Oil Co.*, 04-1475, 1512, slip op., 2005 WL 2416329 (Fed. Cir. Oct. 3, 2005) held Section 271(f) applicable to a particular method patent based on the particular facts of that case. Nevertheless, it remains indisputable (contrary to *Union Carbide*'s apparent understanding) that *the present* case does not involve any method claim as Section 271(f) damages were only sought for infringement of the apparatus claim, claim 6. Accordingly, if the question of Section 271(f)'s application to method claims eventually warrants further consideration, that consideration cannot and should not take place in the present case, but should occur, if at all, on rehearing or certiorari in *Union Carbide* or in some future case actually involving a method claim.

Respectfully submitted,

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No. 05-288

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PATENTS

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IN THE

Supreme Court of the United States

No. 05-288

MICROSOFT CORPORATION,

Petitioner,

v.

EOLAS TECHNOLOGIES INCORPORATED AND
THE REGENTS OF THE UNIVERSITY OF CALIFORNIA,

Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITIONER'S REPLY BRIEF

Respondents devote the bulk of their Brief in Opposition to the merits of the question presented. The little attention they pay to the traditional criteria for certiorari (a mere two pages, Opp. 4-6) is nothing more than a fig leaf. Though the case has been remanded for further proceedings, its interlocutory posture presents no reason for denying review now, because the issue presented is sufficiently important and the rule of law adopted by the court of appeals has and will continue to have a substantial effect on private sector investment decisions regardless of what happens on remand. Further, contrary to Respondents' suggestion (*id.* at 5-6), the "full scope" of § 271(f) is before this Court and was before the Federal Circuit. There is simply no way to the chop the statute into its linguistic parts and pretend that an argument that emphasized one statutory term is somehow different than

the same argument that emphasized a different, but inextricably related, term. Finally, the lack of a split of authority is no reason to deny certiorari, because the Federal Circuit has exclusive patent law jurisdiction. Indeed, a review of the Federal Circuit's own decisions concerning § 271(f) reveals that the court of appeals is hopelessly confused about the statute's meaning and scope and needs authoritative guidance from this Court.

The fact is that the traditional considerations weigh in favor of granting certiorari. That is why Respondents seek to avoid review by assuring the Court that the decision below was correct. But the analytical framework Respondents (and the Federal Circuit) constructed to support holding Microsoft liable for foreign sales of allegedly infringing Windows-operated computers cannot withstand scrutiny.

1. Traditional considerations support granting certiorari to define authoritatively the scope of § 271(f). The petition presents a recurring issue in patent law. The scope of patent infringement liability under § 271(f) has been the subject of several decisions by the Federal Circuit. The multiplicity of views expressed by the judges of that court reveals the need for this Court to impose a uniform and clear standard. The need for clarity is particularly important in light of the issue's potential impact on the nation's economy. The interpretation of § 271(f) will direct the flow of substantial research and development capital by private entities. Pet. 21-23. This case presents this Court with the opportunity to clarify the scope of § 271(f) for the Federal Circuit and private enterprise alike.

It is true that the issue presented here arises in an interlocutory posture. But that fact has hardly proved a deterrent to this Court's review when issues of similar importance were presented to it. Just last Term, this Court decided *Metro-Goldwyn-Mayer Studios, Inc.* v. *Grokster, Ltd.*, 125 S. Ct. 2764 (2005), despite the fact that the petition arose from an interlocutory ruling. *Id.* at 2774-75. The case concerned the liability of peer-to-peer networks for copyright

infringement that occurred over their networks. The interlocutory ruling's potential impact on both the development of peer-to-peer software and networks and the incentive to create copyrighted works warranted this Court's immediate review. Likewise, in *Norfolk Southern Railway* v. *Kirby*, 125 S. Ct. 385, 392 (2004), this Court reviewed on an interlocutory basis a ruling that threatened to undermine the settled expectations of carriers in the international shipping industry who rely upon the enforceability of limited liability clauses. As here, the potential impact on international trade warranted immediate review, and the Court decided the case on the merits.[1]

Respondents further suggest that this case is an inappropriate vehicle for addressing the scope of § 271(f) because the Federal Circuit decision spoke only of whether software is a "component" of a patented invention within the meaning of the statute. Opp. 6. But which statutory terms the Federal Circuit chose to discuss does not confine the scope of this Court's inquiry. The scope of the important question in this case is defined by the undisputed facts. Microsoft creates a "golden master" disk in the United States. This disk is a physical manifestation of the Windows software code. The disk is shipped overseas to a foreign Original Equipment Manufacturer ("OEM"). The foreign OEM, using the disk as a master guide, manufactures new disks and hard drives with physical structures that reflect the Windows software code; those physical structures, in turn, produce a particular configuration of the circuitry of the computers' processors.

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[1] Other civil cases from last Term reviewed on an interlocutory basis include *Exxon Mobil Corp.* v. *Allapattah Services, Inc.*, 125 S. Ct. 2611, 2615 (2005) (interlocutory review of supplemental jurisdiction statute); *Graham County Soil & Water Conservation District* v. *U.S. ex rel. Wilson*, 125 S. Ct. 2444, 2448 (2005) (interlocutory review of proper statute of limitations for False Claims Act claims); *Cutter* v. *Wilkinson*, 125 S. Ct. 2113, 2120 (2005) (interlocutory review of constitutionality of Religious Land Use and Institutionalized Persons Act); and *Tenet* v. *Doe*, 125 S. Ct. 1230, 1235 (2005) (interlocutory review of propriety of suits to enforce allegedly secret espionage agreement with United States).

The results are Windows-operated computers. It is these computers that are the subject of the petition. The question is whether these undisputed facts create liability under § 271(f).

Microsoft maintains (and maintained below) that there is no liability because the allegedly infringing device—the foreign-made Windows-operated computer—has no "component" that was "supplied" from the United States and "combined" with other components. All that is "supplied" from the United States—the golden master disk—never becomes a part of the allegedly infringing device, so it is not a "component" of that device. Likewise, the golden master disk is never "combined" with any other parts to make an allegedly infringing device. There is no way to disentangle the three critical statutory terms because they all reflect different aspects of Microsoft's single argument.

Finally, Respondents claim that this Court should deny the petition because the Federal Circuit's exclusive appellate jurisdiction over patent law disputes ensures that "[t]here is no disparity of treatment among litigants in different areas of the country that would warrant intervention rather than allowing Congress to decide whether any change in the statute is advisable." Opp. 5. If taken seriously, this Court would never review *any* patent law dispute. Of course, this Court has never hesitated to review patent law issues when the circumstances warranted, despite the obvious absence of an intercircuit conflict. See, *e.g.*, *Merck KGaA* v. *Integra Lifesciences I, Ltd.*, 125 S. Ct. 2372 (2005); *Festo Corp.* v. *Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722 (2002).

Further, the Federal Circuit's effort, since its decision in this case, to follow the logic of the ruling below is producing conflict within that court and confusion for those whose business activities are subject to the vagaries of § 271(f) as interpreted by that court. Earlier this month, the Federal Circuit announced that "§ 271(f) governs method/process inventions" so that an accused infringer may be held liable for supplying a component of a patented process for use abroad.

Union Carbide Chems. & Plastics Tech. Corp. v. *Shell Oil Co.*, Nos. 04-1475, 04-1512, 2005 WL 2416329, at *12 (Fed. Cir. Oct. 3, 2005). This holding was said to follow from the decision below, which had rejected Microsoft's argument that § 271(f) should be limited to physical "components" shipped abroad and "combined" into an allegedly infringing device. *Id.* at *10-*12. The holding in *Union Carbide* directly conflicts with an earlier ruling of the Federal Circuit (uncited in *Union Carbide*) that had held that § 271(f) is not "implicated" by the alleged infringement of process patents. *Standard Havens Prods., Inc.* v. *Gencor Indus., Inc.*, 953 F.2d 1360, 1374 (Fed. Cir. 1991). And, the holding runs counter to the Federal Circuit's statement earlier this year that "it is difficult to conceive how one might supply or cause to be supplied all or a substantial portion of the steps of a patented method in the sense contemplated by the phrase 'components of a patented invention' in section 271(f)." *NTP, Inc.* v. *Research in Motion, Ltd.*, 418 F.3d 1282, 1322 (Fed. Cir. 2005).

In *AT&T Corp.* v. *Microsoft Corp.*, 414 F.3d 1366 (Fed. Cir. 2005), the Federal Circuit suggested that it might limit its expansive reading of § 271(f) in the instant case to software patents. *Id.* at 1370. Of course, nothing in the language of the statute itself or in the principles of statutory construction would support reading the statute expansively for one industry's patents and narrowly for another's. As the effort to cabin its capacious reading of the statute to the software industry suggests, the Federal Circuit's approach is unsustainable when carried to its logical conclusion. But, the court of appeals has shown itself to be unable to right itself analytically. It therefore falls to this Court to provide a single, coherent analytical approach to the interpretation of § 271(f).

2. The Federal Circuit's decision does not withstand scrutiny. Respondents' only substantial reason to deny *certiorari* is that the Federal Circuit's decision was correct.

Opp. 6-13. But, their effort to defend the decision rests on a false premise that even the Federal Circuit has now made clear it no longer accepts. There is simply no way to read § 271(f) to cover the conduct at issue here without opening the floodgates to the extraterritorial expansion of U.S. patent law far beyond anything contemplated by Congress.

Respondents accept that the golden master disk is not a "component" of an allegedly infringing device. In Respondents' view, the intangible software code physically embodied on that disk, and made anew (in different physical form) on the foreign-made hard drive, is a "component" of both the golden master disk and the foreign-made computer. Opp. 8 (referring to the "software on Microsoft's golden master" as a "'component'"); *id.* at 14 (referring to the "software that makes the computers ... valuable" as a "'part'" of the computer). Respondents assert that the "ordinary meaning" of "component" includes intangible information (such as software code) reflected in different forms on different physical media. *Id.* at 7. It will ultimately fall to this Court to determine whether the statutory meaning of "component" defines the scope of § 271(f) as Respondents suggest.[2] But it is at least ironic that the Federal Circuit has

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[2] Respondents' reliance on various cobbled-together sources that use the term "component," outside the statutory context, to describe the relationship between computers and software sheds no light on the meaning of "component" in § 271(f). And, even if such non-statutory references were illuminating, they still would not help Respondents. The contexts of the references to "software" make clear that Respondents' sources refer not to the intangible software code expressible in a variety of physical ways, but rather to some physical computer-usable medium on which the software code is physically reflected. Respondents' argument thus begs the question. Nobody disputes that a foreign-made hard drive that has the Windows code installed on it by a foreign OEM can be a "component" of a foreign-made computer. But, Microsoft never supplied any hard drives with Windows code on them from the United States, so the hard drive cannot be the "component" "supplied" from the U.S. and

now made clear that it flatly rejects the premise of Respondents' argument. The Federal Circuit, in *Union Carbide*, said the "component" at issue in this case (*Eolas*) was not the mere intangible software code physically reflected in different ways on different media. The "component" in *Eolas*, the Federal Circuit said, is "a computer disc with program code." *Union Carbide*, 2005 WL 2416329, at *11. The disk itself—the physical, tangible item—is the "component" for purposes of § 271(f).

The Federal Circuit's abandonment of the major premise of its ruling here, while at the same time purporting to apply and extend that ruling, does more than reveal the depth of the Federal Circuit's analytical confusion. It illuminates brightly the importance of anchoring the definition of "component" in § 271(f) to some physical part of the allegedly infringing device. Allowing abstractions—like intangible software code—to serve as "components" for purposes of § 271(f) massively expands the extraterritorial reach of U.S. patent law in a way that Congress is presumed not to have intended.

Respondents' view entails the unnatural conclusion that the "components" of this brief are not only paper and ink, but also the ideas, arguments, and arrangement of arguments reflected in the way the ink is shaped. If the ideas and arguments in this brief are "components" of the brief, then the "idea" of a patented device is a "component" of the device itself. All patented inventions are physical embodiments of ideas, *Pfaff* v. *Wells Elecs., Inc.*, 525 U.S. 55, 67-68 (1998), just as all briefs are physical embodiments of the thoughts of the author. Any foreign-made product that if made in the U.S. would infringe a U.S. patent thus includes within it the "idea" of the invention. If that "idea" is deemed a "component" of the foreign-made product for purposes of § 271(f), then any time a product is made overseas using an

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"combined" with other components to produce the foreign-made computer.

"idea" supplied from the United States, the supplier of the mere "idea" is liable for infringement under § 271(f). Far from a limited exception to the rule against the extra-territorial application of U.S. patents, Respondents' view would open the floodgates to litigation seeking huge damages for alleged infringement of U.S. patents on foreign soil.[3]

As Respondents themselves recognize, software in computer-readable form is patentable because of the effect it has on a computer; it causes the computer to rearrange its circuitry, "making the computer useable in a way that is 'new and useful.'" Opp. 9 (quoting Pet. App. 21a); *In re Alappat*, 33 F.3d 1526, 1545 (Fed. Cir. 1994) (en banc). That is why Microsoft describes software as "design information"; for a computer to perform as intended, the circuitry of its hardware must be arranged/designed in a way that will produce the desired performance. Respondents assert that the allegedly infringing foreign-made products are a "combination" of the intangible software code and the computer hardware. Opp. 8. Respondents never deny that this means that the software, when installed, causes the computer hardware's circuitry to be rearranged so that the computer performs as intended.

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[3] Respondents are, in fact, proud of the broad extraterritorial scope of the rule they propose. They assert that "virtually the entire value" of Microsoft's Windows software is derived from the design and writing of that software in the U.S. (Opp. 11), and that infringement liability should be measured by the "value obtained" by the alleged infringer as a result of such design and development (*id.* at 16), *without regard to territorial limitations* based on the manufacture and sale of allegedly infringing products. But, "virtually the entire value" of any sophisticated product, from computer-related devices to pharmaceuticals to mobile telephones, is derived from its design and development, so the rule Respondents propose has no boundaries. The infringer of a tire patent who makes and sells 100 million tires in the U.S. and makes and sells another 200 million overseas is liable only for U.S. sales, even if the infringing tire was designed and tested in the U.S., and even if a single master mold used to make all 200 million tires overseas was shipped from the U.S. Respondents, in their zeal to capture foreign sales of Windows, are urging principles fundamentally at odds with the territorial limits of U.S. patents.

Instead, Respondents assert that the analogy to typical design information fails. Respondents deny that the supply of the golden master disk is like the supply of a tire mold. They claim that the design reflected in the tire mold is not a "component" of the tires that are made with it. *Id.* at 9. By contrast, they claim that the "software at issue here, *once embodied on a CD (or other computer usable medium)*, is in plain terms a 'component' of the" patented invention." *Id.* at 10. As the italicized language makes clear, Respondents (like the Federal Circuit in *Union Carbide*) conveniently abandon the major premise of their argument (that the intangible software itself is the "component" of the infringing device which is "supplied" from the U.S. and "combined" overseas with other components) in order to avoid the consequences that Microsoft rightly points out follow from that argument.

Respondents and the Federal Circuit cannot have it both ways. They cannot treat the intangible software code as the "component" for purposes of liability under § 271(f) and then shift gears by asserting that the tangible, computer-readable medium on which that code is reflected is the "component" in order to avoid the expansive consequences of their view. The liability Respondents seek for Microsoft's foreign sales is not based on any claim that the golden master CD (which is the "software at issue here ... *embodied on a CD*," *id.* at 10 (emphasis added)) becomes a part of any foreign-made computer. The intangible code reflected on that CD is made anew by the foreign OEMs and becomes reflected on the foreign-made computer's hard drive. Respondents cannot avoid the fact that the undisputed facts *require* them to premise their theory of liability on Microsoft's act of supplying the intangible software code (in whatever form) abroad.[4] And, Respondents likewise cannot escape the

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[4] As noted above, *supra* at 3-4, 6-7 & n.2, Respondents' theory also necessarily rests on the premise that the intangible code reflected on the hard drives of the foreign-made computers was itself "supplied" from the

expansive implications of that premise for the extraterritorial application of U.S. patent law in general.

Respondents take one other swipe at distinguishing software from typical design information. Because software can be separated ("uninstalled") from the computer's hardware while a tire's tread design cannot be separated from the tire, Respondents claim, software is not really design information comparable to a tire tread design. *Id.* at 9. This ignores the patent law significance of uninstalling software from a computer: uninstalling computer software is, as a matter of patent law, making a different computer. That follows from the fact that software installed on a computer is patentable because it makes the computer a "special purpose computer." *In re Alappat*, 33 F.3d at 1545. The "uninstallation" of software is, therefore, the "unmaking" of a special purpose computer. As a matter of patent law, one can no more separate the software from the special purpose computer that allegedly infringes than one can separate the tread from a specially designed tire that allegedly infringes.[5]

CONCLUSION

The petition for writ of certiorari should be granted.

United States, as opposed to copied (and made anew) in the foreign country.

[5] Respondents also baselessly assert that a tire that is made using a specific tread design may not be the subject of a utility patent. Opp. 9-10. While a design patent may also be available to the inventor, utility patents are plainly available for such inventions. *See, e.g.*, U.S. Patent No. 6,484,773 B1 ("Tread Pattern Which Reduces the Running Noise of a Tire"); U.S. Patent No. 6,843,290 B2 ("Surface Profile of the Tread-Pattern Elements of a Tread for a Tire").

Respectfully submitted,

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